112

INTERNATIONAL ECONOMIC POLICY

HEARINGS

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL TRADE

OF THE

COMMITTEE ON BANKING AND CURRENCY

HOUSE OF REPRESENTATIVES

NINETY-THIRD CONGRESS

SECOND SESSION

ON

H. Res. 774

RESOLUTION DECLARING THE SENSE OF THE HOUSE WITH RESPECT TO A PROHIBITION OF EXTENSION OF CREDIT BY THE EXPORT-IMPORT BANK OF THE UNITED STATES

H.R. 13838

A BILL TO AMEND THE EXPORT-IMPORT BANK ACT OF 1945, AS AMENDED, TO EXTEND FOR FOUR YEARS THE PERIOD WITHIN WHICH THE BANK IS AUTHORIZED TO EXERCISE ITS FUNCTIONS, TO INCREASE THE BANK'S LOAN, GUARANTEE, AND INSURANCE AUTHORITY, TO CLARIFY ITS AUTHORITY TO MAINTAIN FRACTIONAL RESERVES FOR INSURANCE AND GUARANTEES, AND TO AMEND THE NATIONAL BANK ACT TO EXCLUDE FROM THE LIMITATIONS ON OUTSTANDING INDEBTEDNESS OF NATIONAL BANKS LIABILITIES INCURRED IN BORROWING FROM THE BANK, AND FOR OTHER PURPOSES

H.R. 13839

A BILL TO AUTHORIZE APPROPRIATIONS FOR CARRYING OUT THE PROVISIONS OF THE INTERNATIONAL ECONOMIC POLICY ACT OF 1972, AS AMENDED

H.R. 13840

A BILL TO FURTHER AMEND AND EXTEND THE AUTHORITY FOR REGULATION OF EXPORTS

APRIL 22, 23, 24, 25, 26, 29, 30; MAY 1 AND 2, 1974

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INTERNATIONAL ECONOMIC POLICY

MONDAY, APRIL 22, 1974

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL TRADE,
OF THE COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The subcommittee met at 10:20 a.m., pursuant to notice, in room 2128, Rayburn House Office Building, Hon. Thomas L. Ashley (chairman of the subcommittee) presiding.

Present: Representatives Ashley, St Germain, Sullivan, and Frenzel.

Mr. ASHLEY. The subcommittee will come to order.

Today, the Subcommittee on International Trade of the House Committee on Banking and Currency begins hearings on international economic policy legislation. Our purpose is to assess the international economic position of the United States, proceeding initially with testimony on the Second Annual Report of the Council on International Economic Policy, and then considering certain legislative proposals within that context. For purposes of discussion, the principal legislative focus will be on three requests put forth by the administration, and House Resolution 774, introduced by Mr. Ichord.

The proposals put forth by the administration are embodied in the following legislation: H.R. 13838, a bill to amend the Export-Import Bank Act of 1945; H.R. 13839, a bill to authorize appropriations for carrying out the provisions of the International Economic Policy Act of 1972; and H.R. 13840, a bill that would further amend and extend the authority for regulation of exports.

House Resolution 774, introduced by Mr. Ichord, would express the sense of the House that certain loan guarantees and insurance shall not be extended by the Export-Import Bank while the Senate is considering and acting on H.R. 10710, the Trade Reform Act of 1973.

[The texts of House Resolution 774, H.R. 13838, H.R. 13839, and H.R. 13840 follows:]

[H. Res. 774, 93d Cong., second sess.]

RESOLUTION

Resolved, That it is the sense of the House that, during the period pending consideration and action by the Senate upon the bill H.R. 10710, as introduced in the first session of this Congress, cited as the "Trade Reform Act of 1973", and as amended and passed by the House, no loan, guarantee, insurance, or credit shall be extended by the Export-Import Bank of the United States to any nonmarket economy country (other than any such country whose products are eligible for column 1 tariff treatment on the date of the enactment of this resolution), and no such country shall participate in any program of the Government of the United States which extends credits or credit guarantees or investment guarantees, directly or indirectly.

[H.R. 13838, 93d Cong., second sess.]

A BILL to amend the Export-Import Bank Act of 1945, as amended, to extend for four years the period within which the Bank is authorized to exercise its functions, to increase the Bank's loan, guarantee, and insurance authority, to clarify its authority to maintain fractional reserves for insurance and guarantees, and to amend the National Bank Act to exclude from the limitations on outstanding indebtedness of national banks liabilities incurred in borrowing from the Bank, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Export-Import Bank Act of 1945 (12 U.S.C. 635 and following) is amended as follows:

(a) Section 2(a)(1) of such Act is amended by inserting in the third sentence immediately after the words "other evidences of indebtedness;" the words "to insure, coinsure, and reinsure;".

(b) Section 2(a)(1) of such Act is further amended by inserting immediately after the word "Government." the following new sentence: "The Bank is authorized to publish or arrange for the publication of any documents, reports, contracts, or other material necessary in connection with or in furtherance of its objects and purposes without regard to the provisions of section 87 of the Act of January 12, 1895 (28 Stat. 622), and section 11 of the Act of March 1, 1919 (40 Stat. 1270; 44 U.S.C. 501)."

(c) Section 2(c)(1) of such Act is amended by striking the entire section and inserting in lieu thereof the following:

"(1) The Bank is authorized and empowered to establish and maintain fractional reserves of not less than 25 per centum of the related contractual liability which the Bank incurs for guarantees, insurance, coinsurance and reinsurance against political and credit risks of loss. Insofar as contracts of guarantee, insurance, coinsurance, and reinsurance are concerned, only that part of the Bank's liabilities represented by reserves provided for above shall be taken into account for the purposes of applying the limitations imposed by section 7 of this Act. Fees and premiums shall be charged in connection with such contracts commensurate, in the judgment of the Bank, with risks covered. The aggregate amount of guarantees, insurance, coinsurance, and reinsurance which may be accounted for on a fractional reserve basis pursuant to this section shall not exceed $20,000,000,000 outstanding at any one time."

(d) Section 7 of such Act is amended by striking out "$20,000,000,000" and inserting in lieu thereof "$30,000,000,000".

(e) Section 8 of such Act is amended by striking out "June 30, 1974" and inserting in lieu thereof "June 30, 1978".

SEC. 2. Section 5202 of the Revised Statutes (12 U.S.C. 82) is amended by adding at the end thereof the following:

"Twelfth. Liabilities incurred in borrowing from the Export-Import Bank of the United States.".

[H.R. 13839, 93d Cong., second sess.]

A BILL to authorize appropriations for carrying out the provisions of the International Economic Policy Act of 1972, as amended

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the International Economic Policy Act of 1972, as amended, is further amended by striking out section 210 and inserting in lieu thereof the following:

"SEC. 210. For the purpose of carrying out the provisions of this title, there are authorized to be appropriated such sums as may be necessary until the expiration of the provisions of this title.".

[H.R. 13840, 93d Cong., second sess.]

A BILL to further amend and extend the authority for regulation of exports

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) paragraph (2) of section 3 of the Export Administration Act of 1969 (50 U.S.C. App. 2402(2)) is amended by striking out "and" immediately before "(C)" and by inserting immediately before the period at the end thereof the following: ", and (D) to the extent appro-

priate to retaliate against a nation or group of nations which have unreasonably restricted United States access to their supply of a particular commodity".

(b) Paragraph (3) of section 3 of the Export Administration Act of 1969 is amended by striking out "and" immediately before "(B)" and by inserting immediately before the period at the end thereof the following: ", and (C) to deal with world shortages of particular commodities, whenever feasible, through international cooperation with the major suppliers and consumers of such commodities, rather than by taking unilateral actions".

SEC. 2. Section 4(b)(1) of the Export Administration Act of 1969 is amended by adding at the end thereof the following new sentence: "In curtailing the exportation of any articles, materials or supplies to effectuate the policy set forth in section 3(2)(A) of this Act, the President may use whatever method of regulation he deems most appropriate, including, but not limited to, the imposition of an export fee or the auction of export licenses.".

SEC. 3. Section 7 of the Export Administration Act of 1969 is amended by redesignating subsections (c) and (d) as subsections (d) and (e), respectively, and by inserting immediately after subsection (b) the following new subsection:

"(c) Any person who enters into a contract, protocol, agreement, or other written understanding, which contemplates, or is likely to result in, the exportation by a United States person or one of its affiliates to a Communist country or area, of United States origin technical data which is not generally available, shall report the details of the transaction to the Secretary of Commerce and provide him with copies of documents pertaining to such transaction within fifteen days from entering into such contract, protocol, agreement, or other written understanding.".

SEC. 4. Section 14 of the Export Administration Act of 1969 is amended by striking out "1974" and inserting in lieu thereof "1977".

SEC. 5. This Act may be cited as the "Export Administration Act Amendments of 1974".

Mr. ASHLEY. We begin these hearings at a time when there is a decline in our national production, at a time when inflation has reached shocking levels. Hence, I believe it timely to restate the broad objectives of our international economic policy. Our principal objectives are the peace and security of the United States and the maintenance and growth of the employment and real income of the American people.

Newly significant factors contributing to the decline in employment and real income available to the American people and prospectively threatening our long-range security are the supply and price of several raw materials.

What policies, then, particularly with respect to export credit and export control, would help to improve the flow of sufficient raw materials to maintain national security and increase the employment and real income of American industry and labor? In order to reach sound conclusions with respect to the disposition of the pending legislation and achievement of these objectives, the subcommittee will be receiving testimony over the next several days from appropriate Government departments and agencies and from representatives of industry, labor, and finance. Testimony will also be taken from expert public witnesses who will focus primarily on commercial and economic relations with the Soviet Union and on the prospective impact of these relations and international technology transfer on our national security, on domestic price stability, and on economic growth.

To begin our hearings, we are very pleased to receive testimony, first, from the Executive Director of the Council on International Economic Policy, Peter M. Flanigan.

Mr. Flanigan, we are delighted to welcome you before the subcommittee this morning, and to receive your comments. Your prepared statement is not too lengthy. If you would like to simply proceed with the reading of that, I think that we can well stay within the time frame that we have generally discussed.

STATEMENT OF HON. PETER M. FLANIGAN, EXECUTIVE DIRECTOR, THE COUNCIL ON INTERNATIONAL ECONOMIC POLICY

Mr. FLANIGAN. Thank you, Mr. Chairman.

I am honored to appear before your subcommittee today to discuss the several issues that you enumerated, significant to our country's economic performance in today's rapidly changing world. The three legislative measures you have scheduled for discussion—the Export Administration Act extension and amendments, the Export-Import Bank extension, and the continued authorization of appropriations for the Council on International Economic Policy—all provide needed tools for our management and execution of foreign economic policy.

The challenges we face and the basic policy goals we seek to reach are outlined in the Second Annual International Economic Report of the President—the fourth topic on today's agenda—which we submitted to the Congress 2 months ago.

Permit me to begin my remarks by citing what I feel are the most important developments during the past year as described in that report, as well as the most serious problems that face us in the coming years. I shall then have some specific comments on each of the three legislative proposals now before the subcommittee.

The most important points we make in the report can be summed up in two categories: First, we describe some remarkable improvement in our trade and payments balances for 1973; precisely the kind of improvement at which our policies were aimed, but, in its magnitude, an improvement beyond even our most optimistic expectations for last year. Second, we described disturbing problems which require our continuing attention, some of which are pertinent to the legislative proposals before the subcommittee.

Last year at this time, as I presented the Council's first annual report, I described how we hoped to create an improved and more effective world economic order, in which market factors would be allowed to make their full contribution to the well-being of all nations. At the same time, I described the need for improvement in the international economic position of the United States, requiring our return to trade surplus to offset expected deficits in our nontrade accounts. Only by so doing could we continue to carry out our vital responsibilities abroad.

Few thought it possible that the needed improvement in our trade account would be achieved within a single year. I must admit, most in the executive branch did not think that was possible a year ago. Nevertheless, the United States went from a trade deficit of $7 billion in 1972, to a surplus of $1 billion—a swing of $8 billion during the year 1973. (See chart 1.)

US Trade and Basic Balances

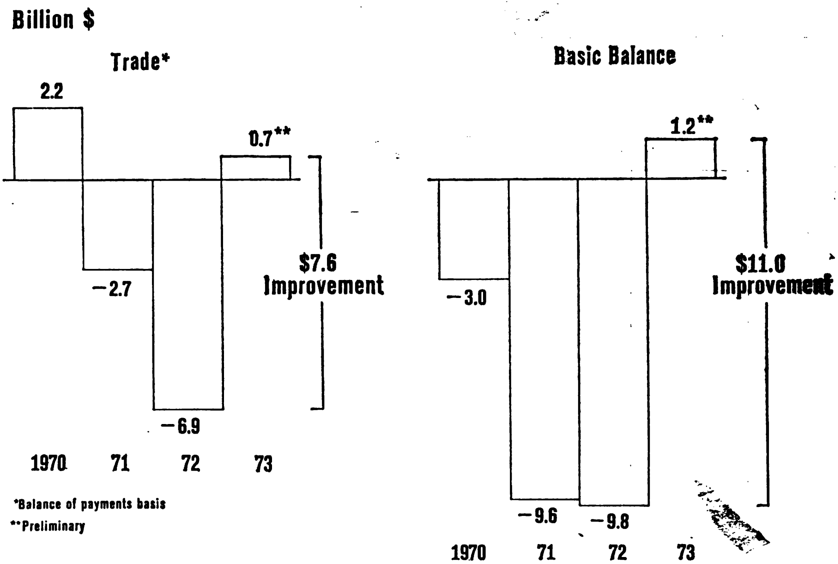

CHART 1

Looking at our basic balance-of-payments account—the measure of the key underlying factors in our international payments—we see that the United States went from a $10 billion deficit in 1972—which, incidentally, followed an almost $10 billion deficit the previous year—to a surplus of over $1 billion last year; the first surplus achieved since we began computing basic balances a generation ago. This improvement reflects gains in some of the nontrade accounts. We improved our position in net military sales by $1 billion and our position in net investment income by $2 billion, but the most important development was that on the trade account.

Since the swing in our trade balance was so extraordinary, it is worth examining its components and its causes. (See chart 2.) A worldwide boom greatly increased demand abroad for our exports. It is particularly worth noting that our agricultural exports increased by 88 percent. It is no surprise to the members of this subcommittee that the bulk of the increase was due to an increase in price, but we should not forget that we also increased our volume of these exports by 21 percent. It is equally interesting that the volume of our manufactured exports increased by an even larger amount; that is, by 22 percent. Yet at the same time, imports of manufactured goods by volume rose by only 2 percent. So clearly we were very competitive in world markets last year, both in manufactured goods and agricultural products.

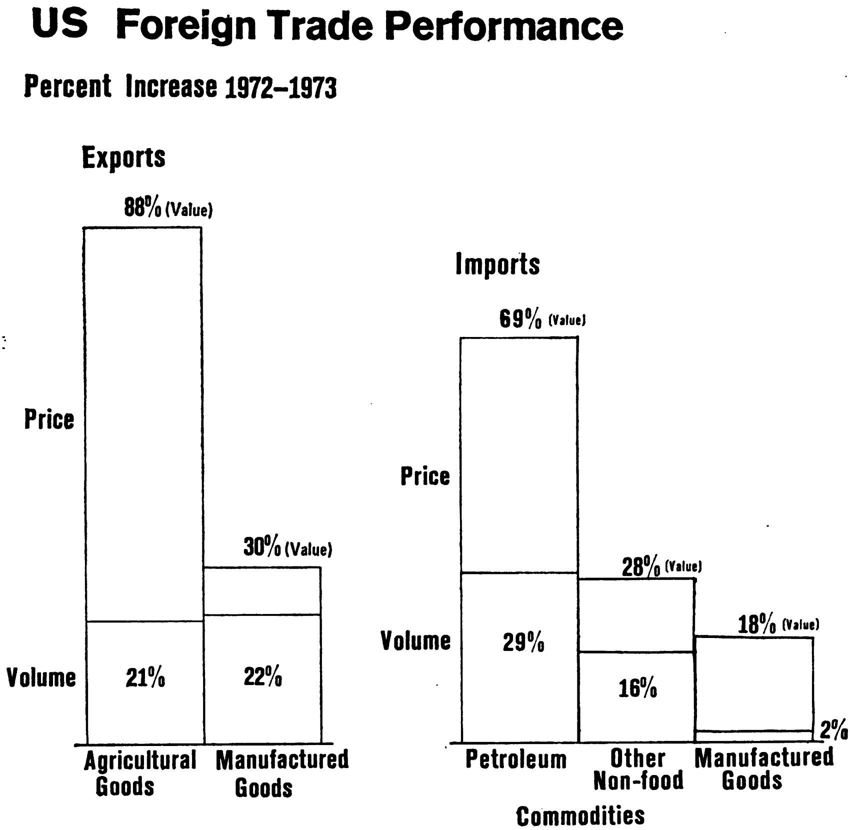

CHART 2

Regarding this trade in agricultural goods, I would like to digress just a moment for some special comments. It is often forgotten that our production of several of these agricultural goods is largely for export; that is, the majority of the production in this country of wheat and of oilseeds and of rice is not for the domestic market, but for export, and a very substantial portion of feed grains and cottons—about 20 percent of our feed grain production and almost half of our cotton production—is for export. (See chart 3.) In these export markets, it is equally important to recognize that we are far and away the dominant factor in those markets.

As you see in feed grains, for instance, and in oilseeds, the United States is more important in the world market for those commodities than are the Persian Gulf nations in the world market for oil. Now, admittedly, a larger portion of those commodities are consumed in the nations in which they are produced than is with the case with oil; but in talking about the world market—international trade in those commodities—the United States is the dominant factor. As we consider the legislation before us, we should remember that when we call for actions against oil producing nations who have restricted their ex-

ports, those actions would be equally applicable to other nations who are dominant in the export of other commodities, such as the United States in the export of certain of these agricultural commodities.

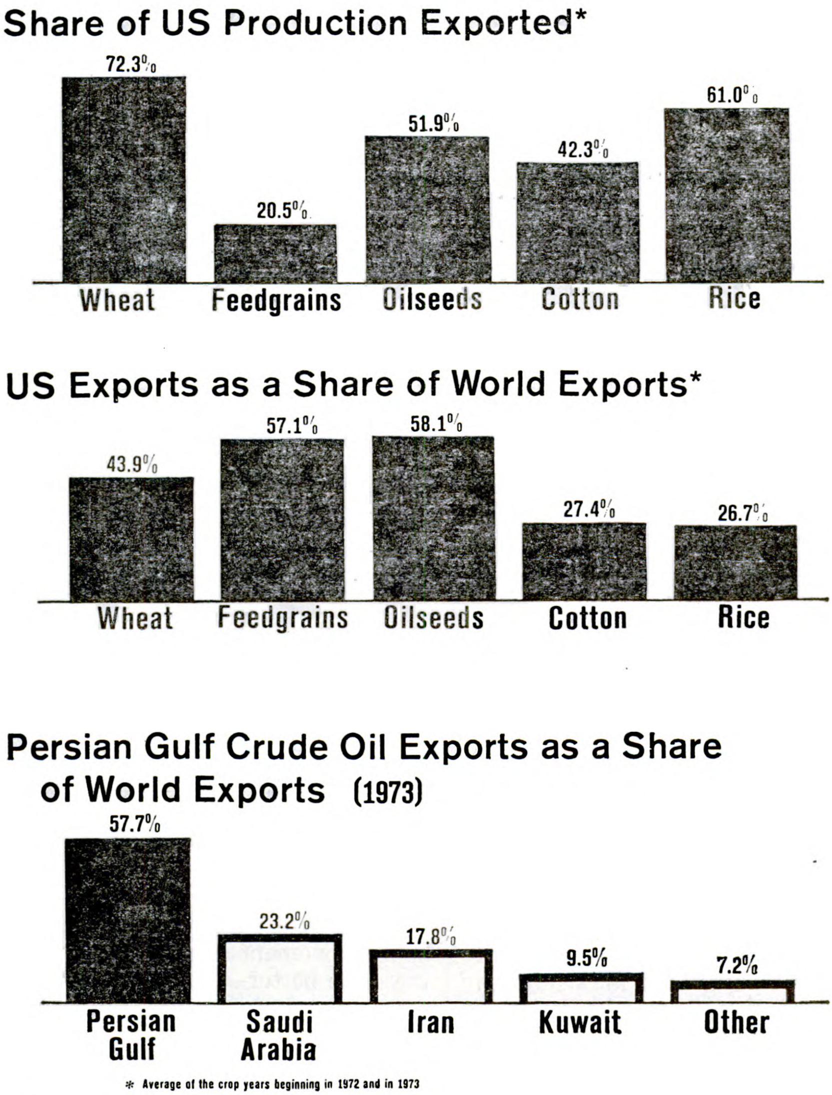

CHART 3

There were three principal causes for the improvement in our trade performance last year, and the first I have mentioned; that is, the increased demand for our goods, stemming from the worldwide economic boom in 1973.

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The second major cause is the fact that the devaluation of the dollar has made our goods more competitive. (See chart 4.) However, as this chart indicates, since the middle of last year the price of the dollar, in terms of other currencies weighted according to our trade with them, has, with some fluctuations, been going up. So today, on a trade weighted basis, the dollar is slightly above the value it had in March of last year, following the second devaluation and other adjustments; and it is only about 5 percent below the value set in the Smithsonian Agreement in December of 1971. If we assume, because of the timelag between the adjustment of the currency value and its effect on trade, that the 1973 trade performance was based on the Smithsonian rates, then the current rate should continue to act favorably on our trade account in this year of 1974.

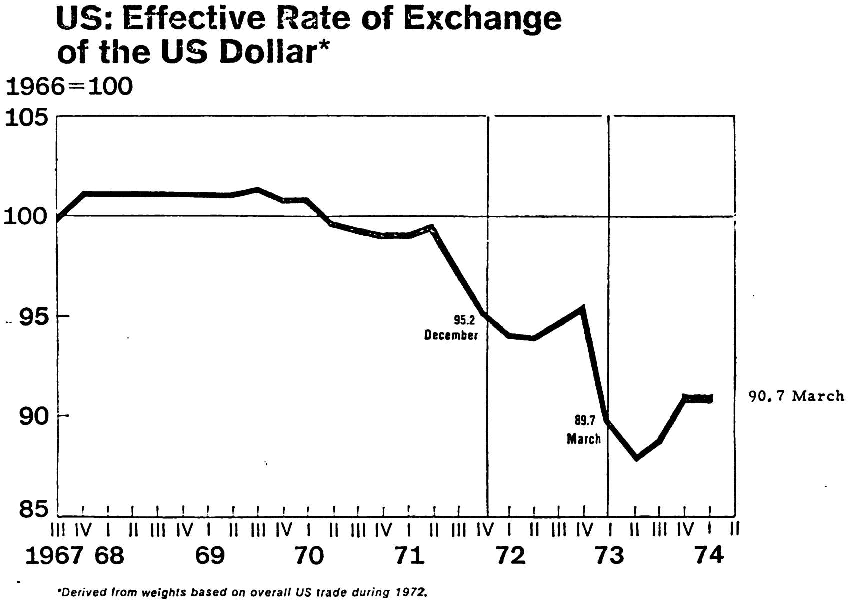

CHART 4

But there is a third reason for the improvement in our trade account. Surprising as it may seem, we have done better—or you might more properly say less badly—than most of our major competitors on the cost front, the inflation front. (See chart 5.) On a 1972 to 1973 year-to-year basis, the inflation in the United States—measured by the Consumer Price Index—was 6.2 percent; as the chart shows, the lowest of the major industrialized countries. By the end of the year, we were doing comparatively less well, though still better than the United Kingdom, Italy, and Japan.

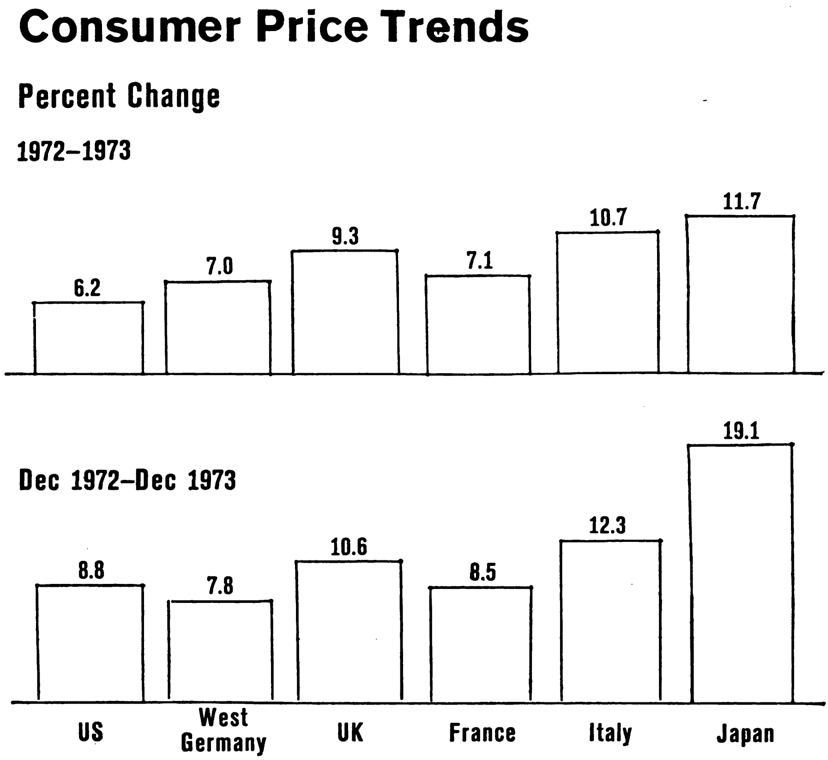

CHART 5

When you put all of these factors together—the change in the value of the dollar and our relative ability to hold costs in line—you come to relative changes in unit labor costs. (See chart 6.) That is the underlying reason for our changed performance in the trading world last year. As you see from the top row of bar charts, between 1966 and 1969 our unit labor costs grew faster than did those of any of our competitors, at an average annual rate of 3.6 percent. As you can see, that 3.6 percent average annual growth is significantly above most of our competitors, though Italy did get close. But in the 4 years since that time—that is, 1970 through 1973—our unit labor costs have gone up an average annual amount of only 2.4 percent, while our major competitors have had increases of from 4 to 5 times that amount, with West Germany having an annual average unit labor cost increase of 18.6 percent, in terms of dollars. This has had a very significant effect on our international price structure and bodes well for our continued efforts to expand exports.

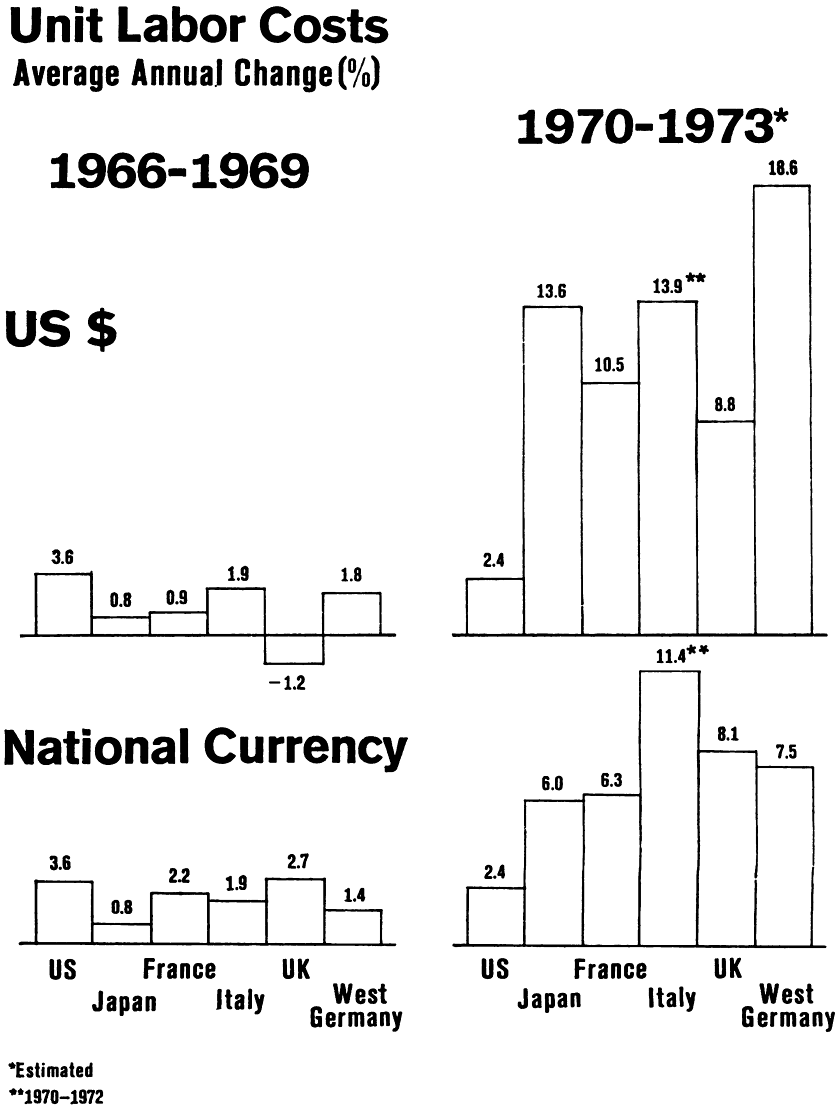

CHART 6

This trade improvement was spread among most of our trading partners—the European Community, Japan, and the other developed countries. (See chart 7.) As you can see, we did not get that same improvement from Canada, but Canada is a special case because their economy moves more or less in our economic cycle and also because, due to the longstanding float of their currency, we did not get the benefit of devaluation in our trade with them. As you see, our trade balance with the Communist countries was improved by $1.6 billion—$1 billion

of this from our trade with the Soviet Union, and $600 million from our trade with the People's Republic of China—both as a direct result of the President's initiatives with those countries.

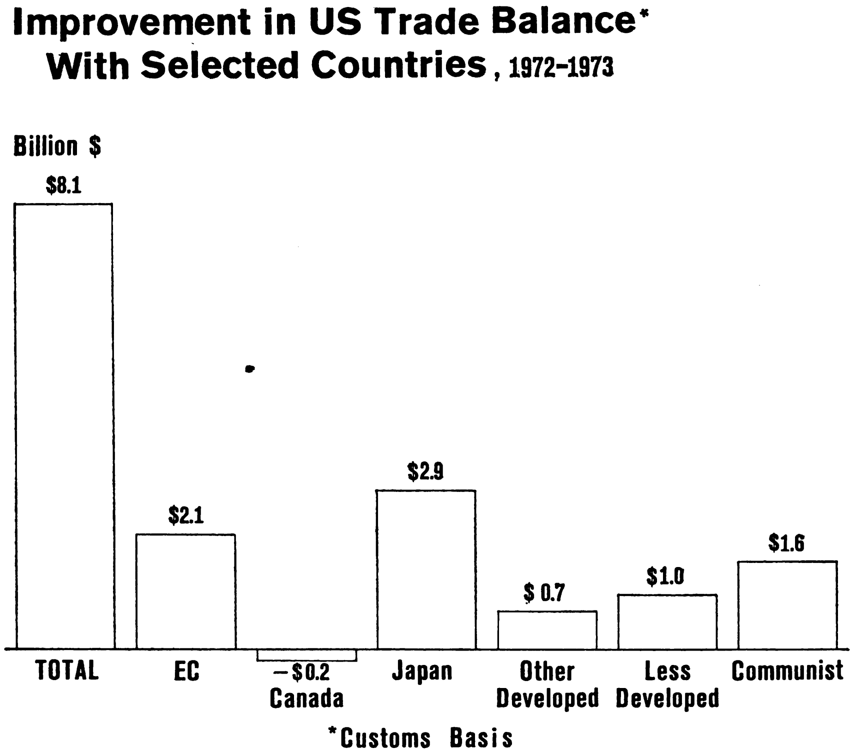

Chart 7

As 1973 progressed, these encouraging developments and the forward movement we saw in international negotiations for monetary, trade, and investment reforms tended to confirm our conviction that we were on the right track in working toward greater reliance on the market system. The more flexible transitional monetary arrangements in effect since last spring had worked well in times of stress, and our discussions in Nairobi last fall continued to reflect general agreement that market forces should play a significant role in setting exchange rates. The long-planned multilateral trade negotiations opened in Tokyo last September, with talks beginning in Geneva in October looking toward a lowering of the barriers to trade and improved rules. In the OECD, we were seeking ways of minimizing distortions to the free flow of capital to where it can be most productively used.

With the onset of the energy crisis, however, there were calls to reexamine the validity of market-oriented solutions. Some expressed doubt that a monetary system in which exchange rates are strongly affected by market forces could function in the face of enormous reserve

accumulations by the oil producing countries. Some felt it would be a bad time to seek trade liberalization, when countries faced with energy-caused trade deficits may be tempted to restrict the inflow of goods and services. Others feared that permitting the freer flow of investment capital would lead to the takeover of industries in the United States by those countries earning huge revenues from their oil.

We recognize that the energy crisis poses particular problems in reserve management, and especially serious problems for developing countries. These are currently being addressed and examined in a variety of international forums, including the Energy Coordinating Group created at the Washington energy conference. But after reexamination, the conclusion is inescapable that the worst course we could follow would be to abandon our efforts to create a more open system and revert to greater restrictions. Our continuing commitment to the principle of having the market more effective in monetary, trade, and investment activity is reflected throughout the President's report. Since the report was submitted to you, we have mounted major efforts to reinforce the will of the international community to face these problems in a spirit of cooperation. We are determined to continue our progress toward a reformed economic system that can bring maximum benefits to our own citizens, and, indeed, to all nations.

I know that you have a special interest in the evolution of our economic policies toward the lesser developed countries. In the past, our relations with these countries were primarily in terms of aid programs. These programs, bilateral and multilateral, continue to play an important role. However, the need in this area is now a broader one. We must insure that our trade, monetary, and investment policies work in concert with these development programs to address the critical problems of the LDC's. For example, we are now working with our international partners to examine and find solutions to the severe balance of payments and economic growth problems for the hardcore number of non-oil-producing LDC's.

If, as some of you have suggested, the first two annual reports prepared by the Council on International Economic Policy have played a useful role in focusing attention on these major issues and presenting the concepts behind our policy recommendations, the effort that has gone into them will have been justified, as will the Congress decision in 1972 to require such a report annually.

I would like now to turn to the three legislative proposals on today's agenda, which I described earlier as representing some of the basic tools the President needs in order to create and carry out economic policy initiatives, both designed to promote the well-being of our citizens and, at the same time, to be consistent with our broader domestic and foreign policy goals.

The first of these is the proposed extension of the Export Administration Act, with certain amendments. As you are aware, the act authorizes imposition of restrictions on exports to accomplish three basic purposes: To protect the national security, to further the aims of our foreign policy, and to maintain availability of domestic commodities found to be in short supply. The Government has acted in recent years to insure that the first two types of controls are carried out in such a manner as to avoid needlessly hampering our competitiveness in world

markets, while remaining consistent with national security and foreign policy aims. Clearly it is the third area which dominates the current debate, as we find ourselves having to direct more and more attention to problems of resource supply.

Let me say at the outset that we regard the imposition of export controls as a last resort, to be utilized only in particularly difficult cases. We consider such controls basically inconsistent with our goal of an open world economy in which market factors play a more effective role. The export controls we imposed last summer on certain agricultural products and ferrous scrap, and, more recently, on crude petroleum and energy-related petroleum products, do not signal a reversal of this policy. The long-term interest of the United States continues to be the elimination of barriers to international trade in order to assure our overseas markets that the United States is a secure source of goods they need, and to assure our citizens access to those foreign products that we require.

It does, however, remain essential that the Export Administration Act be extended, with certain amendments to equip us to deal effectively with the problems we expect to face in coming months and years. The proposed amendments are set forth in H.R. 13840. They include: First, two amendments to deal with worldwide shortages, stating our belief that multilateral solutions to problems of world shortages are, whenever feasible, preferable to unilateral actions, and authorizing the President to use export controls as appropriate to retaliate against a nation or group of nations which has unreasonably restricted U.S. access to their supply of a particular commodity; second, to broaden the options available to the Department of Commerce in administering short supply controls—as alternatives to establishing export quotas in accord with past performance, the amendment would authorize the use of export fees or an export license auction system—and finally, for national security reasons, there is an amendment to require the reporting within 15 days of any agreements made by U.S. companies with Communist countries which would be likely to result in the transfer of U.S.-origin technical data not generally available to the public. Such an early-warning system will permit the Government to consider in a more timely manner the strategic implications of such undertakings.

Passage of H.R. 13840 as described above will insure that we are equipped both to continue the expansion of trade in appropriate products with Communist countries, so important to our trade and payments balances, and at the same time enable us to deal more effectively with newly emerging commodity supply problems. The bill is consistent with our national security and foreign policy, as well as being clearly in our economic interest.

The Export-Import Bank, whose extension would be authorized under the terms of H.R. 13838, performs a critical function for American workers and companies in our international trade performance. While our price competitiveness abroad has been helped by the factors I described earlier, price alone does not make sales in the foreign markets in which our firms must operate. Financing is often a critical competitive factor in winning those export sales so important to our country in terms both of our balance of payments and of the jobs these exports mean for American labor. The $10.5 billion of export sales

supported by the Export-Import Bank in the last fiscal year translates into about three-quarters of a million full-time American jobs. If our exports are to continue to make a contribution of this magnitude to the well-being of our citizens and our economy, we must continue to provide competitive financing. The 4-year extension of the Export-Import Bank will enable this important activity to continue in the period ahead.

In addition to the economic benefits I have described, there are important considerations of foreign policy which need emphasis as this subcommittee considers the Export-Import Bank extension. The United States is pursuing an historic initiative in seeking to move our relationship with the Soviet Union away from military confrontation and toward mutually beneficial economic relations. It is often mistakenly believed or suggested that the Export-Import Bank is, in effect, giving the Soviet Union large sums of money. It is important to correct this impression, and to understand clearly that the Export-Import Bank only disburses funds to American companies in payment for American products to be used in the Soviet Union in return for the obligation of the Soviet Union to repay with interest at a rate which is currently 7 percent.

The goods and services involved in these transactions will be bought elsewhere if competitive terms are not available here, and our competitors in Europe and Japan are ready and willing to capture these markets. But beyond our own commercial interest, it appears to us to be unwise in the broader context of our foreign policy initiative to consider discriminatory restrictions on the financing of exports to the Soviet Union, as would be imposed under House Resolution 774.

I strongly recommend passage of H.R. 13838 to enable the Export-Import Bank to continue to make its strong contribution to our Nation's economic well-being in the years to come.

I should like now to turn briefly to the final topic on today's agenda; that is, H.R. 13839, authorizing appropriations for the Council on International Economic Policy. The Council plays a key role in the formation of our country's international economic policy. While responsibility for several specific fields of economic activity resides in more specialized departments and agencies, the links among trade, monetary, and investment issues continue to make it essential that a body within the Executive Office of the President carry out the vital role of insuring that all aspects of a problem are considered in the decisionmaking process, and that the President receives the best and most balanced policy advice available. Since its creation in 1971, that responsibility has been carried out by the Council.

The Council, itself composed of Cabinet-rank officials, is served by a small staff under my management as Executive Director. The staff is used by the Council to coordinate the efforts of individual agencies and to synthesize the often divergent policy recommendations forwarded by them. All the talent and resources available to the White House from the specialized departments and agencies would be of little value unless this critical management job is done well.

This task will be especially important in view of the critical stage our international trade, monetary, and investment negotiations during fiscal year 1975. Despite emergence of new problems affecting the pace

and direction of these talks, negotiation of the details of new international monetary arrangements will be continuing. Assuming passage of the trade bill, the multilateral trade negotiations launched last September will be picking up steam. Negotiations on international investment reform are being conducted in the OECD framework. Although the Council is not an operational agency, and therefore does not do the actual negotiating itself, the policy direction of these negotiations is determined by the President through the CIEP mechanism.

A final point which appears worth recording is the fact that this is one organization on the Washington scene that has remained a small and tight ship. The coordination of the many offices and agencies involved in international economic affairs is handled at the Council with a small staff. Other than administrative and support personnel, this currently consists of 20 professional staff members, 9 of whom are on detail to us from other Government agencies.

Existing authority for CIEP appropriations expires June 30 of this year. The draft bill before you provides for the authorization of appropriations until the expiration of the International Economic Policy Act, currently set by section 209 at June 20, 1977. Appropriations for 1974 are estimated at $1,376,000 and estimated for 1975 at $1,800,000. Other than reflecting higher costs generally, this increase is large due to the planned addition of two professional staff members, additional consultant contracts, and newly legislated requirements for office space reimbursement to GSA.

In closing, let me simply emphasize my view that these three legislative proposals represent some of the most important tools we need in dealing with the kinds of international economic problems we anticipate in the period ahead. I therefore strongly urge that you give them your approval.

Mr. Ashley. Thank you, Mr. Flanigan, for a very good statement.

I have had an opportunity, of course, to review the International Economic Report of the President, which, as you indicated, was transmitted to the Congress in February, pursuant to provisions of legislation that require this. I want you to know that I, for one, was very impressed with the scope and the quality of that report, and I would hope that, if it has not already been done, that other Members of the House would have direct access to this report, hopefully before the legislation that we are considering today and for the next few weeks comes to the floor.

Mr. Flanigan. Thank you, Mr. Chairman.

As you might expect, we did send that to all Members, and I appreciate your kind words. They really should be directed to the staff, several of whom are here with me, and I know they appreciate those kind words as well.

Mr. Ashley. One of the questions I recall being asked when the CIEP legislation was considered in the House was whether or not, in fact, there was a need for CIEP to have a statutory status, and what, if any, benefits would accrue from such status vis-a-vis continuation of CIEP as simply an in-house kind of operation.

Inasmuch as the same people who raised that question are still with us in the House, I think it might be helpful to have for the record any statement that you might wish to make in this regard.

Mr. FLANIGAN. Mr. Chairman, I think that the past couple of years have proved the wisdom of the House action, the congressional action, in granting statutory authority. In the first place, we would not have been able to continue to get details and to operate as we have been operating in that there is a limit to the time in which an Executive order can call for such services.

Second, we would have been unable to get the quality of people we needed to work in what would have been viewed as a temporary agency. Third, it would have been, I believe, more difficult to get the attention of the other agencies in the executive branch to cooperate with us.

I think it is all of these reasons that, for instance, caused the National Security Council for so many years to be a statutory agency rather than just the result of an Executive order.

Mr. ASHLEY. In your comments on page 10 with respect to H.R. 13840, with respect to the Export Administration Act extension, you suggest two amendments, one of which would state that multilateral solutions to problems of shortages are preferable to unilateral action. This, of course, is totally consonant with the policy that has been enunciated by the President and the Secretary of State and strikes me as being entirely appropriate.

You go on to suggest an amendment that would authorize the President to use export controls as appropriate to retaliate against a nation or a group of nations which has unreasonably restricted U.S. access to their supply of a particular commodity. I can certainly understand the rationale behind such a suggested amendment. I do wonder a little bit whether this authority has been implicit in the Export Administration Act at the present time, since, as you pointed out, there are three bases for restricting or controlling exports, one being national security; the second, furtherance of foreign policy; and the third, short supply.

What do you think? Has thought been given to that?

Mr. FLANIGAN. Yes, Mr. Chairman, very considerable thought was given to that, and we recognized the validity of the argument that might be made. However, one can posit conditions in which national security would not be jeopardized, in which there would be purely a price effect on the United States.

While we agree that there is considerable authority already in the act, we believed that it was necessary, and might be salutary insofar as other nations might be considering such actions, to make it clear that the President did have the authority to retaliate if we considered it in our interest to do so.

Mr. ASHLEY. Is this authority that is sought not similar to authority that is contained in the trade bill?

Mr. FLANIGAN. First, the trade bill empowers the Government to retaliate against imports from other countries. It does not give us authority to retaliate against foreign cartels or other artificial restrictions on supply by imposing controls over our exports to such countries. Second, much of the thrust of the trade bill is to the creation of mechanisms for dealing with nations, or groups of nations, that restrict the supply of items, that restrict exports, and rules that might be negotiated that would discourage this kind of a restriction of ex-

ports. The authority we seek in the Export Administration Act, would be to give us the power to do something about it by controlling exports, as well as imports.

We did in the Council have a very long meeting on this subject, and we thought that it was appropriate that we cast the trade bill in the context of the negotiation of rules and put in the Export Administration Act the authority to react by controlling exports, since the latter act is the basic export control authority.

Mr. ASHLEY. This, of course, goes somewhat counter—and I am not being critical—but it seems to me it goes somewhat counter to the stated objective of seeking solutions on a multilateral basis. Of course, there need not be any inconsistency. Efforts would be made to negotiate and achieve results on a multilateral basis; but failing results, there should be spelled out in the law the authority to act unilaterally.

Is that right?

Mr. FLANIGAN. That is correct. Even, Mr. Chairman, if our partners in a multilateral negotiation were to agree that we should act all of us together, we would need the authority to act, which we would not have simply because others wanted to.

The Export Administration Act, as amended, would give us that authority.

Mr. ASHLEY. I think that implicit in the authority in the act now to restrict or control exports for national security and foreign policy purposes is the kind of authority that you seek.

Mr. FLANIGAN. It was our concern that if it were for pure economic reasons, domestic economic reasons, there was not security impact, that we needed more explicit authority. But in addition to that, as you point out, it may be that our partners in the case of a discriminatory action against us alone would not feel constrained to negotiate, would not feel constrained to act.

We found that we were singled out with perhaps one other nation recently, or two or three other nations recently, in just such a situation, and there might well have been some reluctance to join us in a response, an action that was a response. We think that the authority called for in this amendment is necessary, but hopefully not one that will be used.

Mr. ASHLEY. Going on to the proposed amendments to broaden the options available to the Department of Commerce in administering short supply controls, you stated, "Alternative to establishing export quotas in accordance with past performance, the amendment would authorize the use of export fees or an export license auction system."

Is this being used at the present time?

Mr. FLANIGAN. No, it is not being used. There was some talk about using it at one point with cattle hides. There is here again an argument that as long as the primary purpose of such a fee or system was not to raise income that it could be imposed.

We did go to the Justice Department, and asked for a ruling, but we felt that the issue was sufficiently unclear that it would be preferable to get authority from the Congress to impose such a system.

Incidentally, this approach does go to our belief that the market is the better allocator of supplies, and that is for ourselves and others. Therefore, we would prefer to allocate through price, that is, whatever

the market price here was plus the fee, than to attempt to allocate quotas on the basis of past performance.

Mr. ASHLEY. You are referring, I take it, to the constitutional impediment when you speak of the determination by the Justice Department?

Mr. FLANIGAN. I am, Mr. Chairman; I am. If it were necessary to put a significant export fee on the item in order to sufficiently constrain the exports, then the revenue raising effect of that fee could be of such magnitude as to cause a court challenge to the action. It was for that reason we thought it best to request this authority in the extension of the Export Administration Act.

Mr. ASHLEY. I do not think that it is necessary to ask you to provide additional information with respect to the advantages that would be expected from this particular amendment, because I would expect the Department of Commerce will testify at some length on that. But, obviously, we are going to need some considerable supporting evidence for this.

Mr. FLANIGAN. They manage the export control system, Mr. Chairman, and they will best be able to point out the shortcomings of trying to allocate under a quota on the basis of past performance. But we do believe that, essentially, the market is the best allocator of these exports, and that is what a fee would allow us to do.

Mr. ASHLEY. I will have some additional questions in a few minutes, Mr. Flanigan, but for the present time let me yield to my distinguished colleague, Mr. Frenzel.

Mr. FRENZEL. I thank the distinguished chairman, and I thank the distinguished witness for another one of his usual fine presentations. I join the chairman in commending you and your staff for this fine and comprehensive report. I suppose we bask in some of that glory, because we think that we have helped you with it and encouraged you, and, in fact, specified in one instance, at least——

Mr. FLANIGAN. Mr. Congressman, I have to admit to that. I did not perhaps, accept with the good grace that I might have the directive that we undertake this burden, but I do believe, in retrospect, that it has been a worthwhile effort. It has been helpful for us in the executive branch, and, if it is helpful for the Congress and the public at large, that is an additional reason to thank you.

Mr. FRENZEL. Well, you have an awful lot of information in there, but it is kept to a readable level. If you can retain on your payroll the genius that keeps it short, you will be serving the Republic beyond the call.

I am interested in a couple of features in your report, one of which is the one that specifies what your budget will be for the future. I do not particularly want a comment on it from you at this time, but I do note that there are substantial increases, particularly for 1975. I do congratulate you for having kept a kind of a lean organization in the past, but I think you will recall the difficulties we had before the Appropriations Committee, and I hope that between now and this year's moment of truth that there will be a little more detailed explanation on where the additional funds might be coming.

Mr. FLANIGAN. We will make that available to you, Mr. Congressman, because we think that these are entirely justifiable, some sub-

stantial portion being the fact that the GSA has legislated that we must reimburse out of our budget for space and services that were not previously in the budget.

Mr. FRENZEL. I am sure that you do and that you will. What I am trying to say is that this subcommittee, which happens to be a prime sponsor of your programs before the House, needs to have the ammunition with which to convince some of our colleagues of the needs for the appropriate amount of money. It will be helpful to us if we have the same data that you provide to the Appropriations Committee.

Mr. FLANIGAN. You will have it.

Mr. FRENZEL. Mr. Chairman, I would also like to question Mr. Flanigan with respect to the third amendment of which he spoke, requiring a 15-day report to the Secretary of Commerce. I would agree with him, and with the Department of Commerce that it is a good idea to have this information. In fact, it is probably absolutely necessary.

What concerns me is that we do not sell half enough to the so-called nonmarket economies, particularly in central Europe. With respect to the companies within my district, or within my area, I find that there is a great deal of difficulty in getting through some restrictions we have set, particularly the Comecon list.

I would like to know of efforts on the part of your Council to make trade easier, rather than harder, because I think that the improvement in trade and manufactured goods was absolutely spectacular. The achievement of last year is hard to believe. Somehow we ought to keep it going, so is there some way?

Are you doing something to make life a little easier on our manufacturing companies to get into central Europe?

Mr. FLANIGAN. Mr. Congressman, let me suggest three central ways in which we are trying to make life a little easier, but say at the outset that does not mean we are making it easier to sell goods that, on careful consideration, have a strategic impact.

The first thing we urged—and it has been completed—was a review of our entire restrictions list to see if we could not shorten and simplify the list without impacting our national security.

The second thing, which we are just bringing to completion, was a study on computers to see if, for today's level of technology, the level of restrictions that were being imposed by the United States was realistic. We worked with the major companies in the industry, as well as, of course, the relevant agencies in Government. We think that getting that knowledge out will make life easier.

Finally, I seem to spend a large amount of my time on being an expediter, trying to get a decision, even if the decision is negative, but to get a decision for the companies so that when they have entered into a contract subject to Government approval, they either get that approval or they get denied the authority. I do think that while that may not make the sale, it makes life a little easier for them.

So we have done what we can within the constraints of national security to be both explicit and reasonable. Beyond that, we are doing what we can to see to it that the decisions are made promptly.

Mr. FRENZEL. I appreciate your interest in those matters, and I am glad to know who the expediter is to whom we go to now for all problems.

The other question is that the 15-day reporting requirement makes no mention of public notice or record or whatever, and I have two questions. Is not 15 days maybe a little close, considering the fact that the people who negotiate the protocol or agreement may take more than 15 days to get home, for instance, after they sign it?

Second, it is, I think, extremely important that we maintain the capability for retaining the privacy of trade secrets. I would hope that wherever this amendment fits in, that somehow the individual companies are protected, and that this does not become a matter of information directly for the competitors, and most particularly foreign competitors, who can then go in and make a better price, or make better credit concessions, or some of the other things that you mentioned.

Mr. FLANIGAN. These agreements are not specifically contractual agreements to sell goods at a certain price, but rather an agreement that could lead to such a sale. It is my understanding that the information will be kept confidential, that this is not for the public but rather for the Commerce Department in its program to manage the export of sensitive items.

With regard to time, I do think that is a consideration which I would like to suggest you might take up with the Commerce Department when they come here. But there is, I am sure, a willingness, a delight, in fact, on the part of the commercial attachés in the economics end of our embassy in Moscow to receive this information and send it back. The Commerce Department might be better able to answer that.

Mr. FRENZEL. I appreciate that. I think we will discuss that with them. But I think what we want to know is what the Commerce Department really wants to find out. We want to make sure they have all the information they need. We do not want them to be compiling enormous lists which have to be confidential over a long period of time and so forth. But I do appreciate having the advantage of your thoughts on what they should want.

Mr. FLANIGAN. It goes to the question, Mr. Congressman, of going to the ability to act with some speed when we have a contract put before us, so that we know ahead of time what kind of problem is likely to arise, and we can have some discussions with the company before they come in and say, well, now, we want to sell this machine. Can we get an exemption or waiver, or is it not covered at all by our lists.

Mr. FRENZEL. That is exactly my feeling, too.

I would like to proceed on to the matter of foreign direct investment in this country, and, of course, its corollary, and in fact a more important corollary, our investment abroad. It seems to me more and more we are hearing of laws and proposals to restrict foreign investment within the United States, which, as I understand it, is contrary to our stated policies.

We have a number of State legislatures passing laws with respect to ownership of particular properties. Usually these laws are concerned with the acquisition of land by foreign governments, and frequently with acquisition of utility-type operations like banks.

I hope that your proposals and those of the departments which might be included in the consideration of CIEP will not be asking foreign governments to restrict investment in this country, other than

on a rational basis consistent with security needs. Certainly, we do not want large segments of our economy taken over, or have the control taken from them. But on the other hand, we certainly, if we believe in free trade, ought to admit that free movement of capital is a part of free trade—nothing is free, but at least reasonably free—and while you might suggest overall policy guidelines for certain kinds of restrictions we ought to remember that our investment abroad is many times what the foreign investment is in this country and that, indeed, one of the purposes of devaluation was to attract foreign investment in this country.

A number of us in our home areas have become the beneficiaries of foreign investment-created jobs. So I hope that the administration and CIEP specifically will be making a strong pitch in this area and trying to keep our policies as they have existed heretofore.

Mr. FLANIGAN. Mr. Congressman, we had the opportunity of appearing before another committee of the House of Representatives and the Senate on this specific subject. In both instances we strongly supported the belief that investment flows should not be distorted, that we should keep this market open to foreign investment.

Indeed, you may recall that when Secretary Shultz appeared at an international meeting in Rome, a meeting of the Group of Twenty he specifically said it was incumbent on us to keep open an opportunity for the investment of funds that were being accrued abroad.

There are already, as you know, some significant Federal restrictions on foreign investment in this country; in communications and airlines, on inland waterways, and coastwise shipping companies. The Defense Department has some significant restrictions. There was a recent takeover bid for a company here, and in the proxy statement there was a long listing of the Defense Department and related security inhibitions on domestic foreign-owned firms.

So we think, having reviewed those restrictions on foreign investments, that they are about right. Therefore, we believe, and have so stated, that we should not distort or restrict the free flow of investment beyond those generally accepted rules already in place. We also think, as you point out, that from a very pragmatic point of view, it would be foolish for this country, with some $100 billion of direct investment abroad, to begin to restrict investment here when there is only $15 or $16 billion of direct investment here; that the possibility of reciprocal action doing great damage to us would be very real.

Finally, it is interesting to note that in a period when it was thought that the dollar was very low and was relatively cheaper in terms of foreign currencies than it is now—that is the middle of last year—and when the prices on our exchanges were thought to be very low, that nevertheless, even in such a year, there was such a greater outflow of long-term private investment from the United States than there was into the United States. We are buying more of other people's assets even today, even though we already own more of theirs than they own of ours. Therefore, any restrictions on our part would be bound to be exceedingly costly to us.

Mr. FRENZEL. Thank you.

I guess I believe that, too. If we get so restrictive, it is very hard for us to object to such things as the Andean Pact and other agreements

that try to limit U.S. investment abroad. We certainly have a good deal more at stake in the size of our own risk abroad. It still seems to me that we are not getting enough foreign investment in this country, at least consonant with the devaluation.

Are you surprised at the relatively light inflow of foreign capital?

It seems to me, maybe, no more than, say, equivalent to the earnings of existing foreign capital.

Mr. FLANIGAN. I think these things take time, and it was not only cost, Mr. Congressman, that concerned people abroad. They were concerned as to the complexity of some of our laws, such as our security laws and antitrust laws, the size of this market, its highly competitive nature as compared to some of their more managed economies. So when one sees that foreign direct investment in the United States went from $200 million in 1972 to $2,100 million in 1973, an increase of 10 times, I think that, given the very small starting point, I think that that does indicate that there is beginning to be a greater reciprocal flow.

Mr. FRENZEL. I think we were counting on substantial Japanese investment which has been, shall we say, deferred until such time as some of their energy problems and their cash flow problems are resolved.

Mr. FLANIGAN. But during that period of time there were no restrictions on Japanese exports of capital. That came after 1973. But our basic balance indicates that in our basic accounts we are about in balance, even slightly in surplus. I do not think we should evidence any special urgency about getting any more long-term capital here. If it is attractive, given whatever the rates are, for foreigners to invest here, that is fine.

But since we are now in equilibrium in these basic accounts, our effort should be to keep the capital markets relatively free of distortion, so that money can go to the place in which it will be most productively used.

Mr. FRENZEL. Thank you very much, Mr. Flanigan.

Thanks to the chairman for the indulgence of running overtime.

Mr. ASHLEY. Mr. St Germain?

Mr. ST GERMAIN. Just two questions, Mr. Flanigan.

Would you define for us, for the record, "export license auction system"?

I go back to the quotas on oil and the tickets and so forth. These things bother me and I would like to have them defined.

Mr. FLANIGAN. Mr. Congressman, that was a license system, but not an auction system; it was an allocation of import tickets based on any number of criteria, as you recall—history, size of refineries, et cetera. In this instance, there would be determined the appropriate amount of goods that could be exported, and obviously the demand for these goods would be such that the price abroad would be higher than the price at home, and so the right to export would be a valuable right.

The Government, having determined the amount of these particular goods that would be exportable, would then auction the tickets, the rights, to export such goods. That would mean that this value would accrue not to the exporter, but rather to the Treasury, and therefore to the people as a whole.

Mr. ST GERMAIN. Thank you.

Another question—in the first place, bringing out the reliance on market forces, a total reliance on market forces—on page 24 of your annual report, you state: "We remain the only major country whose agricultural exports are not controlled directly by the Government or indirectly by a marketing board." In addition to that there is a U.S. Senate report dated April 2 which states that: "Indeed, as of this writing—March 1974—the United States is the only major producer of wheat which does not have some form of export controls on that commodity."

This is evidently a unilateral position since we are the only country that states we do not have any controls of this type.

Does this unilateral position, in your opinion, serve the objective of price stability as far as we are concerned?

Mr. FLANIGAN. Over a long period of time, Mr. Congressman, I do believe it does, sir. As you saw on chart 3, the majority of our wheat production is exported. If those markets were not encouraged, then we would have a much smaller wheat industry than we do, and as you know, volume tends to bring prices down. In addition, it is not only the price of wheat that one must consider, but the price of the other things that we need, such as oil and many other raw materials as well as manufactured goods, and we buy them with dollars. The value of the dollar is determined by the amount of goods that we can sell, and so if we were to deny ourselves the benefit of this very major export of wheat, and had we done that in 1973, the dollar would have continued to go down instead of going up from July on and all of the things we import would have cost a great deal more, from oil through the other raw materials and manufactured goods. Therefore, it is our strong belief that over an extended period of time the market does work to give the American citizen the opportunity to buy a wider range of goods at a lower price.

Mr. ST GERMAIN. It seems odd to me that we are the only country in the world that feels this way. Everybody is out of step except for us.

Mr. FLANIGAN. Well, we also have the most fruitful economy. We have a lower portion of our income spent on food than any other economy. We have a healthier diet than do other countries, and therefore I would think that perhaps they are out of step. We have, as you know, strongly represented to them that in the multinational trade negotiations that are coming up, we are going to press very hard that they provide us greater freedom in their agricultural markets.

Mr. ST GERMAIN. Let us be practical. The two previous members who have been chatting with you stated that we are going to have to go to the floor of the House with this legislation eventually. I have been home all week, as I am sure they have.

On page 24 of your report you discuss what happened to the price of wheat. Frankly, it is very technical, but perhaps in a cavalier fashion. Those of us who go home are asked a question about the price of wheat—in other words, bread, pastries, et cetera, the staff of life, so to speak. The effect of our policy has been, as far as the average citizen is concerned, an adverse one, and it is rather difficult to tell him, well, you have to look down the years, many years hence, and eventually our policy is going to prove out. All they know is what they are paying right now, what has happened to the price of a loaf of bread today.

Mr. FLANIGAN. Mr. St Germain, when they are buying wheat they are buying it at 25 percent less than its high price last year. When they are buying soybeans, which of course they do not—they buy them in manufactured forms—it is 50 percent less than last year. Corn is 20 percent less. Cattle, 27 percent less; hogs, 50 percent less; broilers, 50 percent less; and cotton, 25 percent less.

So that when it goes to the floor of the House, I think what we will be hearing is not only——

Mr. ST GERMAIN. Excuse me, are you telling me that I can go back to my people and tell them they are paying that much less today?

Mr. FLANIGAN. That is what you can tell them because that is the fact.

Mr. ST GERMAIN. You cannot tell my wife that, nor any of the other ladies I saw Saturday night at a banquet with about 500 people in attendance.

Mr. FLANIGAN. They are not buying wheat. They are buying bread.

Mr. ST GERMAIN. It is the product, that is right. They do not care about the raw material.

Mr. FLANIGAN. That is the result of inflationary factors in our economy as a whole, which should not be blamed on our agricultural policy. They have to be blamed on the way we in the Government—and I include in that all of us in the executive and legislative branches—manage the economy, manage our fiscal policy, determine what our spending level should be, et cetera.

With regard to these food prices, there will be some of your colleagues from agricultural States who will suggest that the prices have gone down too far.

Mr. ST GERMAIN. I do not know how many letters my colleagues receive, but the American Bakers Association, or whatever the group is, I recall about 5 or 6 months ago making the announcement that the price of bread was going to skyrocket. Secretary Butz in rebuttal said, no, it would not happen. Of course, there was the usual letter writing campaign. We received form letters by the hundreds complaining about what was happening to the price of wheat.

Are you going to give us some replies to the contentions they make—to wit, that it is our policy that is responsible for the increased prices?

Mr. FLANIGAN. Yes, Mr. Congressman, I believe we have given you those replies. Now, there are some people who do not want to listen to the response. St. Paul told St. Timothy that at times people will have itching ears, and it may be an unfortunate fact that some of the people in Rhode Island have itching ears and do not want to hear.

Mr. ST GERMAIN. It is not restricted to Rhode Island, Mr. Flanigan.

Mr. FLANIGAN. Well, it is of course true that a lot of people will blame the market forces in agricultural prices for the total problem in the price of food. The head of the bakers who made that speech said that the price of bread would go to a dollar a loaf. In order for that to have happened because of an increase in the price of wheat, wheat would have had to go to $33 a bushel. As a matter of fact, wheat is now selling, as of last Friday, at $4.03 a bushel. At its high point last year is was selling at $5.34 a bushel. So it is clear that that is not the problem. The problem of the price of a loaf of bread is 80 percent other than wheat—wages, manufacturing costs, distributing costs, et cetera.

Those prices, all of which have been subject to the inflation of the last year, and a problem for all of us in Government, are subject to other forces, not the force of our agricultural policy. They are subject to, as I say, among other things, the way in which we do our job in managing the Government influence on the economy, such as fiscal policy.

Mr. ST GERMAIN. Thank you, Mr. Chairman.

Mr. ASHLEY. Mrs. Sullivan?

Mrs. SULLIVAN. I have a few questions, and I apologize for not being here to hear your entire statement and to hear your explanation of the charts you presented on what was happening in prices, in exports and so forth. But I was detained in another committee.

I want to follow up with what Mr. St Germain was saying about the increases in prices of these commodities that were being exported in great amounts. It was only when the huge sale was made to Russia that the demand for higher price to our own consumers and users of the wheat and grain started to rise to exceptional heights.

Is that not true?

Mr. FLANIGAN. Mrs. Sullivan, the increase in the price of wheat and other feed grains came simultaneously with an abnormally strong demand around the world for a number of reasons, including the Soviet demand. While certainly one could argue that Government policies are not sufficiently responsive, and therefore we perhaps kept an export subsidy on longer than was appropriate, the fact of the matter is that the demand was there, not just because of the agricultural problems in the Soviet Union, but also because of crop problems around the rest of the world, as well as the failure of the fish meal industry in Peru. So that there was a demand all over the world for these goods. The appropriate response to that demand, we believe, is to increase supply to stop managing the economy and those parts of the economy here that would create that supply. That is what we have done, taking 60 million acres out of reserves, so that we now have more goods.

But I think that it is important that you recognize that the wheat industry in this country is essentially an export industry, that most of the wheat we produce is for foreigners, not for the United States, and if we start restricting that industry, causing those people to go elsewhere, we not only will be shrinking the opportunity for people in the wheat business here in the United States, but increasing the costs. Because we will have a smaller, and therefore less efficient, industry here.

Mrs. SULLIVAN. Well, was our industry paying more for wheat that they bought for domestic use than the foreigners were paying for the wheat that was exported to them?

Mr. FLANIGAN. They were for a while until the export subsidies were discontinued, because it had been the sense of this Congress under previous agriculture acts that we subsidize the export of U.S. wheat down to the world market price, and the world market price as computed was under the domestic prices. It was a lag in adjusting those two prices that caused this subsidy, but that had been going on for years and years.

Mrs. SULLIVAN. But we had not been selling wheat in those quantities, and when we did begin to get the expanded orders for the export

of wheat, how long did it take us to adjust those differentials in subsidies that were being paid?

Mr. FLANIGAN. That program, Mrs. Sullivan, is managed by the Agricultural Department. I do not know how long it was, but I would agree with you, it took too long. But I would also contend that, given the worldwide demand for wheat, had we adjusted more promptly the export subsidy program, wheat prices would have gone to the same level anyway, because the demand around the world by virtue of a series of factors was sufficient to create that demand. Only by restraining exports, doing to the people who have been taught by us to rely on U.S. wheat—the same thing that the Arabs did to us who had come to rely on their oil—only by doing that could we have artificially kept down the price of wheat in the short run at home.

Mrs. SULLIVAN. I know the explanation that was given to us that people asked for when we were still sending wheat, other foods and so forth over to the Arab countries, when they turned off the oil spigot and we were still selling them things that were almost in a shortage at home—at least from the cost of the product—that we needed. We were told, well, of course, if we turned it off and would not sell to these countries, they would turn around and buy it from Russia.

But was not Russia already selling wheat that they had bought at such a low price to these other countries?

Mr. FLANIGAN. No, they were not, Mrs. Sullivan. They were selling wheat, and they have traditionally been in the grain trade, as I understand it, to other Communist countries. They have said they did not sell in the general world market out of their normal trade pattern.

With regard to the suggestions that we limit wheat sales during the oil embargo to the producing countries, the response was: No. 1, we are negotiating with them, both for peace in the Middle East and to lift the embargo, and have made some progress, as you know, in both; second, they are not such large importers of wheat, and with the kind of money that they had they could have gotten it from other wheat exporters such as Canada—which had, and still has, a large amount of wheat—Australia, et cetera.

So I think neither would it have been helpful in our negotiations nor practical as a lever to get the embargo lifted sooner than it was.

Mrs. SULLIVAN. I was just going to ask you, did it play any part in the negotiations for oil that we were still supplying them with something that was very much needed to keep their people alive?

Mr. FLANIGAN. I think it was certainly an implicit factor in those negotiations, and I think that, when we look at our importance as the dominant factor in world trade in a number of items which are, if anything, more essential than oil, one can see that that would be very helpful in our efforts to keep people from limiting their exports of essential goods. It is to enhance that leverage that we have suggested an amendment to the Export Administration Act.

Mrs. SULLIVAN. I don't believe there is a person on this subcommittee that would not want to see us sell for foreign export all the grain, all the wheat, everything that we could produce here in this country. But when it affected our own economy by raising the price to an unheard-of amount, and caused the inflation that we have here, it was another story with the people. I am thinking, too, of scrap metal.

When our small steel industries needed scrap, we had no shortage here. But they could not afford to pay the price that, for instance, other countries who were buying from us were willing to pay, and which raised the price to an unconscionable amount to our users here. Now, it took an awful long time to put any kind of a clamp on, or control on scrap steel. I do not believe it is on any more; is it?

Mr. FLANIGAN. Yes, it is still on.

Mrs. SULLIVAN. It is still on?

Mr. FLANIGAN. It is still on, and while the price of scrap steel is enormously high, it has come down somewhat in recent days.

Mrs. Sullivan, I think that we in this country have to determine how we want to live. If we conclude that we will not exchange dollars held abroad for gold and we will not sell foreigners any goods that they want here if it affects our prices, and therefore we will not sell them scrap steel or soybeans or cotton, or any of those things, then how are we going to buy the oil and the other essential raw materials we need if we are to keep this economy going? Furthermore, what basis would we have for complaining when foreign countries decide for their own reasons—reasons they think are more important than just high prices—that they are not going to sell us any oil?

Mrs. SULLIVAN. I do not think any of us ever pressed for any cut-off of these products that other countries want to buy. But I think we do press for limitation in times when it is scarce and when it means a scarcity to our own people. If we know that we have the customers, if we know that we can produce and we can encourage our own farmers to produce more food, then I think we can raise the quotas that we are allowing to be exported. But I do not think we should do it at the sacrifice of our own people unless there is something that will compensate for the huge increases that our people must pay for everything that we are exporting in great amounts.

Mr. FLANIGAN. I think that the compensation there is a fact that you will buy, the American people will buy, the other things that they import at a significantly lower dollar price to them than they would if, instead of getting that 88 percent increase in the export of our agricultural commodities last year, we had gotten only a 32 percent increase. We would have found the dollar sinking dramatically in world markets, and the prices of everything that we buy would have gone up significantly. I think it is in that sense that the market best serves the American consumer.

Mrs. SULLIVAN. I just have one more question, then I want to yield to Mr. St Germain.

Has the farmer—have you indications that the farmer is actually producing a great deal more, or is he holding back with a fear that maybe the market will be glutted?

Mr. FLANIGAN. The farmer is producing a great deal more, with record crops coming in this year. Since the bulk of our wheat crop is, as you know, a winter wheat crop—some 75 percent—we know that this year's wheat crop is going to be a record. As a result, as I suggested to Mr. St Germain, wholesale prices for agricultural commodities, the best indicators of this production, have come down significantly. Soybeans are down 54 percent, as of Friday, of their high price last

year, and wheat is down some 25 percent from its high price last year. Therefore, there is a very clear indication that the American farmer has responded exceedingly well in increasing his output.

Mrs. SULLIVAN. Thank you.

Mr. ST GERMAIN. Correct me if I am erroneous here, but in reading the Senate report again, it refers to two sales of grain to Russia, one in 1963 and one in 1971, $110 million worth in 1963 and $150 million in feed grains in 1971.

Correct?

Mr. FLANIGAN. Would you show me where that is again, please, Mr. St Germain?

Mr. ST GERMAIN. I am reading from the Senate report dated April 2, materials relating to the United States-Soviet Union commercial agreements. On page 4 it states:

> Two previous purchases of U.S. grains by the Soviet Union had been on a cash basis, $110 million of wheat in 1963 and $150 million in feed grains in 1971.

We were selling large quantities of wheat to Russia between 1963 and 1971 and July 8, 1972, when the 3-year grain agreement was announced?

Mr. FLANIGAN. I do not believe that we were. There may have been some spot purchases, but I do not believe there were.

Mr. ST GERMAIN. What is bothering me is, you told us in your report that we had to feed these customers because they have been relying on us over the years. However, here is a customer that had not been relying on us. They had made the determination that they wanted to increase the protein in the Soviet diet, and then they came up with this tremendous purchase. The way I look at it is, if we are going to increase production, encourage them.

You say to the farmers, we are going to allow you a year, or 2 years hence, to sell increased amounts to Russia. However, in the meantime you increase your production and we will allow you to sell it.

Now, you talk about a reduction of 25 percent in the price of wheat. That is a reduction from the high point of $5.60 a bushel, right?

However, it is still quite an increase from the $1.63 that the Russians paid us for the wheat that was subsidized and for which we loaned them money at 6⅛ percent per annum from letters of credit from U.S. banks and 7⅛ from letters of credit from foreign banks.

I am still not convinced that it would not be better to have a policy-making group here, as they do in other countries, on the export of commodities such as wheat, so that we could say, we will allow you to export 2 or 3 years hence when we increase our production. However, we cannot sell to Russia at $1.63 and then say to our people, you are going to pay $5.68, $5.60 a bushel now, and then tell them we have reduced the price 25 percent.

Mr. FLANIGAN. With regard to the price, Mr. St Germain, I thought it was important that when you go back and talk to your constituents and they tell you that wheat prices are at an alltime high that you be informed, and I thought it important that you know what the facts are with regard to the sale of wheat to the Soviet Union. You may recall that at that time the Government granaries were bursting with excess wheat that we could not sell. The farmers were being denied the

right to plant some 60 million acres that they owned because there were no markets for that wheat. The taxpayer was being burdened with some $300 million a year cost of storing and financing this excess wheat. The Congress, the public, and the executive branch alike were looking for ways to export the wheat. We did not know, and this all-knowing policy that you suggest other countries have did not know, that the anchovies were not going to be off the coast of Peru, that there were going to be droughts in a number of producing countries, and that there would be the kind of shortage that would push up the demand for wheat.

Now, as I have said to Mrs. Sullivan, far be it from me to suggest that what we did was right in terms of how long we pursued a policy that had been a policy for a long period of time. But I would suggest that that policy was the expression of the kind of governmental policy board which said, "this is the proper price for wheat at home, this is the proper price, the subsidized price for wheat abroad, this is the proper number of acres that we should plant in this country—60 million less than we have available, thanks to our very fertile country." It was because of those very governmental interferences with the market that we ended up with a program that sold wheat abroad at a lower price than we sold it at home, and that put us in a shortage position when we most needed that production.

Hopefully, the market as it is currently working and the lack of constraints on our farmers that now exist will keep us from falling into that trap again.

Mr. St Germain. Thank you, Mr. Chairman.

Mr. Ashley. Mr. Flanigan, I must say that with regard to your colloquy with Mrs. Sullivan and Mr. St Germain, I am struck by an apparent irony, at least. In recent days, when the Banking Committee had been considering the matter of domestic controls, we have certainly been told in no uncertain terms by both labor and management that their position is against any form of controls, even an oversight type of operation, as was suggested by Dr. Dunlop, with respect to our domestic economy. They have come out foursquare for a return to market forces.

We now find many of the same segments of labor and management favoring controls; certainly export constraints are a form of positive control with respect to the operation of our international economy. They present quite a case for a return to the market mechanism when it comes to our domestic economy, but they do take a rather different view when they are involved in the international market. Perhaps this is just an apparent irony, but it is one that, I say, strikes me.

I cannot really fault your analysis of the general operation of how the market works. What you have really been saying, in part at least, is that high prices can be caused to lower, if there is increased production, and that increased production should be encouraged. You pointed out, it seems to me, that this has been the result, at least in our agricultural sector—I do have some problems, as Mrs. Sullivan does, I think, with respect to situations where an increase in supply may not really be possible, and one such situation—and I am sure that there are others—Dr. Dunlop has indicated that he thinks there are others—is with respect to ferrous scrap.

Now, it is really not possible, as it manifestly is not, to plant seeds and harvest a crop with regard to scrap. An unfettered policy of encouraging exports, allowing the international market to determine price, in turn, can cause a very real domestic shortage, which is not being met and perhaps cannot be met by an increase in production. In such a situation, you have a different kind of problem, and I would suppose that this is what you have in mind. I would like your comment on this when you say that you regard the imposition of export controls as a last resort, to be utilized in particularly difficult cases.

Is that what you had in mind, that kind of situation?

Mr. FLANIGAN. Yes, it is, Mr. Chairman, and I must admit that this particular case has given us a very great deal of trouble. It is true that no other nation of the world permits the export of scrap steel, and that makes it more difficult, as Mr. St Germain pointed out, for us to follow this policy. I would like to suggest that there is another reason for trying to let the market operate where you can, other than just increasing supply.

In scrap steel, there is some increase in supply. Happily, you will note that it is much more profitable now to pick up old cars, and they are not cluttering up the roadway to the extent that they were, because there is a very significant drive on to get steel. Also, it tends to affect demand, not only to constrain it, but to shift it to other directions. As I understand it, the charge for an electric furnace is scrap steel, but the economics of that kind of steelmaking changes when the scrap price goes up. So the market has an effect on the demand side as well.

The question before us, with regard to scrap steel, is how long do we interfere in that market? How long do we say to the producer or collector of scrap that there is a price at which you will operate that is going to be less than the world price? That is obviously a burden to him, so that you can benefit some other people who are in the steelmaking business. But how long do we continue to distort this demand-supply equation, so that people build more electric furnaces?

Mr. ASHLEY. Well, let me just say that tracking your discussion of a few minutes ago with the very substantial amounts of dollars that we have exported abroad, which represent purchasing power in the United States, the question of how long takes on a very important coloration. One might say as long as that hoard of dollars is available for the purchase of nonreproducible scrap in the United States. What I am really getting at, and I think Mrs. Sullivan was getting at, is that it might be as good to try through the Commerce Department, or CIEP, or otherwise, to define the particularly difficult cases, and to describe to the American exporter and to the American consumer of ferrous scrap, for example, and to our trading partners, the kinds of limitations with respect to policy that we have in mind.

What I am really saying is that I do not think it is going to be very easy to go to the floor and to say that export controls, according to the administration, are to be used as a last resort, to be utilized in particularly difficult cases, period. I mean, we have really got to describe our policy considerations in terms that are somewhat more meaningful, both to ourselves as congressional policymakers, and to those people whom we represent, who, in some instances at least, seem to have a very legitimate interest and point to be considered.

We are talking—at least in some instances, as I have indicated, not about export controls being used as a price-control device, although it may have, and would have, that aspect to it. But, in fact, we are talking about the actual availability of scrap, which in turn means whether or not a particular producer is going to be in business. As I say, I think that it is really very important to describe for policy purposes, and I think we are going to be obliged to do so on the subcommittee, what we mean by particularly difficult cases, and how we address them. I would ask you, in concert with the Commerce Department people who will be testifying, to give us some rather specific guidance in this area. Absent that guidance, we go to the floor with an open rule, which means, of course, that amendments can be added to the bill which might well overshoot the mark.

Mr. FLANIGAN. Thank you for that suggestion. We will attempt to do that, and I am sure you realize how hard it is to generalize in this kind of an area. I suppose the way in which we would do it is those kinds of situations in which there cannot be a relatively rapid response. But we will certainly see if we can broaden that definition.

Mr. FRENZEL. Would the gentleman yield?

Mr. ASHLEY. Yes.

Mr. FRENZEL. I think this is an important discussion, and I hope that we have all gained something from it. I think we probably have, but I think that the witness makes an awfully good point about the ability to respond and the complicating questions. I know one of the countries that very much objects to our restriction of ferrous scrap exportation, is Venezuela, which has been our most reliable supplier of oil, and on whom we depend for at least a sizable proportion of our oil imports. Venezuela has not been our best pal with respect to prices, but they have kept the oil coming.

Somehow, we have to explain to those people what we are doing. They say they are not restricting our oil supply where we want to receive it, but that we are restricting their scrap supply which they need badly. The idea of Mr. St Germain for some kind of congressional review mechanism is a good one, but I am not sure it is the last full answer. I think that somebody has to be free to make promptly decisions that are very complicated, subject always to review; and if Congress wants to move in, they can any time.

I would also mention, with respect to the wheat deal, Congress passed the law that provided for wheat subsidies, and Congress was not any smarter than the administration—in fact, considerably less so, in determining when to cut off those wheat subsidies. So, I do not think the record proves that we are more alert than the executive branch. I think it is useful that we be in on it, and that we have a chance, at least as promptly as possible, to review these significant decisions.

Mr. Chairman, I have certainly found the morning constructive. Thank you.

Mr. ASHLEY. I have just two short questions, Mr. Flanigan. We have begun to receive reports, as I daresay you have, of the view being advanced both in and out of Government that export expansion activities are no longer necessary or desirable in the present environment of an inflation and selected shortages. The view has been advanced that the form of the international monetary system and the floating ex-

change rate makes some, if not all, programs of the Export-Import Bank superfluous to the achievement of national economic objectives.

Assuming that you are aware of these arguments, what would be your response?

Mr. FLANIGAN. Mr. Chairman, with regard to exports in general, I do not think it makes any sense at all to export anything unless you want to buy something with the proceeds from the sale. There is no merit, in my view, of giving away a resource just for the delight of seeing it leave this country.

But given the increased requirements for imports, not only as a result of our increasing standard of living, but as a result of the increase in energy costs, it seems to me that we should continue to look for greater exports of goods where we can get that production. If we can increase supply here, we should do so, because we will get some things we want.

Now, the question is, should we distort the mechanism in order to get those exports? Should we, for instance, subsidize exports?

No, I do not think we should. But I think we should remove inhibitants, where we can, to greater exports, in order that we can buy the things we so desperately need at home.

With regard to the operation of the Export-Import Bank, it seems to me that those who say, well, you have got a floating rate now, you can always adjust for noncompetitive credit terms, because the value of the dollar will go down—I suppose that is true. You could adjust for most distortions by letting the value of the dollar depreciate as it relates to other currencies. But if we were to do that where our competitors in the trade field provided credit terms much better than ours for export, we would be putting an excess burden on other people who use that dollar other than in trade. For instance, the tourists; it would cost them more to go abroad. Furthermore, because the dollar was cheaper, it would be much more expensive for us to invest abroad, and it would encourage an inflow of dollars into this country to make up for this deficiency in the trade account.

I think that distortion would be unwise and uncomfortable for Americans. I think they do like to travel, and why should they give that up because we will not at least be competitive in the trade field.

We have heard some concern about investment here, and while I am all for keeping investment flows free of distortion, I am not for skewing them to favor greater investments here. That is what we would be doing if we allowed the dollar to depreciate in order that we can make up for a less than competitive export credit system. So I do not think that argument really is an appropriate argument. I think we should remain competitive, not more than competitive, but competitive in the financing of U.S. exports.

Mr. ASHLEY. One final question, Mr. Flanigan.

Is international technology transfer a one-way street?

Are there, for example, technologies now being developed abroad which would be useful in our own economy?

What are the prospective benefits to the American economy of our sale of U.S. equipment on customary international credit terms, for example, for the development of energy resources within the Soviet Union?

How often would you say it is the case that we are the sole source of a given technology?

Mr. FLANIGAN. Starting with that last question, if I may, Mr. Chairman, I do not think very often we are the sole source. We may have a little better model or a little better price, but the job can be done in most instances, I am informed, by equipment from other places.

Clearly, we have benefited by technology developed abroad, the obvious ones being penicillin and radar and the Wankel engine—if that is still a benefit, looking at the EPA recent studies. But there are technologies abroad that have benefited us. I have no idea which are now being developed abroad, but I do believe that I saw recently that Alcoa entered into an agreement with the Soviet Union to buy a process either for turning bauxite into alumina or alumina into aluminum, I am not sure which, using significantly less energy than does the current American technology. In this particular climate, that would be very beneficial.

But to answer what I believe is the remaining question, what are the benefits to the United States of exporting our technology, particularly if it develops energy in the Soviet Union: in the first place, when you send a machine abroad, somebody has to build it; some American workman is able to put his efforts on the marketplace at the highest possible return, and you get a benefit from that sale.

If as a result of that sale, energy is developed in the Soviet Union, then they will join other producing nations that want to sell this commodity, and there will be a greater supply. Hopefully, that will act to mitigate the world price of oil or gas, even if we here in the United States do not buy any of that energy.

There are other significant economic benefits that would accrue from selling this kind of technology, to the extent that they develop gas, and from that gas, they make ammonia-based fertilizers. You know that is being currently discussed. Then the shortage of fertilizer around the world, and the resultant high price, will both be mitigated.

There will be more foodstuffs produced around the world. Again, the price in the world market will go down, even if we do not buy it. Our own prices will go down. Of course, the specter of hunger that stalks so much of the developing world would be mitigated. I am convinced that significant benefits can result.

Mr. ASHLEY. Mr. Flanigan, you have been a first-rate witness and a very good one to lead off these hearings before the Subcommittee on International Trade.

We appreciate very much your being with us.

Without objection, there will appear at this point in the record a report prepared by Alfred Reifman, senior specialist in International Economics in the Library of Congress, entitled "The Impact of the Rise in the Price of Crude Oil on the World Economy: Prognosis and Policy Options."

THE IMPACT OF THE RISE IN THE PRICE OF CRUDE OIL ON THE WORLD ECONOMY: Prognosis and Policy Options

CONGRESSIONAL RESEARCH SERVICE

LIBRARY OF CONGRESS

ALFRED REIFMAN
Senior Specialist in International
Economics

February 10, 1974

THE IMPACT OF THE RISE IN THE PRICE OF CRUDE OIL ON THE WORLD ECONOMY

--Prognosis and Policy Options--

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THE IMPACT OF THE RISE IN THE PRICE OF CRUDE OIL ON THE WORLD ECONOMY

--Prognosis and Policy Options--

In October and December 1973, the OPEC countries raised effective oil prices from $3.45 a barrel landed in North America and Western Europe to roughly $9 a barrel. Even if the Arab oil embargo and cut-back of production were ended shortly, the price increase alone will raise massive economic problems for the world:

--Inflation, already a serious problem, will be given a sharp stimulus: some 3 percentage points will be added to to the rate of price increase in 1974.

--Domestic demand, and hence output, employment, and real income, might be reduced significantly in 1974--by some 2 percentage points more than would otherwise have been the case.

--Acute balance-of-payments problems will face most countries--notably non-oil producing less developed countries, but also Japan, the United Kingdom, and Italy in 1974.

Whether these problems materialize in a substantial way will depend in part on the policies adopted by the industrial countries and the degree of cooperation among them. Moreover, the problems are so massive, and the rise in the price of oil so great, that it seems unlikely that current oil prices can be long maintained.

This memorandum discusses the above estimates and their implications for policy. The estimates are necessarily rough. Their only purpose is to provide a reasonable framework for the development of economic policy.

I. Impact on Prices

The increase in the price of imported oil will have a major impact on world prices. As can be seen in table 1, for the OECD countries as a whole the increased cost of imported oil should raise domestic prices (more technically, the GNP deflator) by more than one percentage point.

TABLE 1

Impact of October and December 1973 Increase in Price of Imported Oil

	Effects on Imports $ billions a/	As % of Total Expenditures (1973)
Selected Countries		
U.S.	9.5	0.7
Japan	8.3	1.5
France	4.5	1.2
Germany	5.3	1.2
Italy	5.0	1.8
U. K.	5.0	1.8
BLEU	1.5	1.8
Netherlands	1.5	1.5
OECD total	46.6	1.2
Non-OECD	7.5	
Grand Total	54.0	

a/ The estimates show the effect of the change in oil prices on the 1973 volume of oil imports.

Source: OECD, Economic Outlook, Paris, December 1973 and Federal Reserve estimates January, 1974 (Memorandum of Helen Junz).

Moreover, since the increases will be passed along more in percentage rather than absolute terms (in order to maintain mark-up margins constant as a percent of costs), and since wage-push inflation is also likely to develop, the price increase for the OECD countries could well be higher than that implied in table 1. Indeed, it might amount to 3 percentage points or more. (The impact on the United States would be well below average since domestic energy supplies are large.)

II. Impact on Demand and Output

The price increase for imported oil is identical in its economic impact to a tax on oil consumption. The net economic impact depends on the public's reaction to the "tax" and the use to which the "tax collector" puts the revenue.

Helen Junz of the Federal Reserve estimates that the direct impact of the increase in the price for imported oil would be to reduce GNP by 1.5 to 2.2 percentage points below what it otherwise would have been. a/ This seems reasonable since, as can be seen in table 1, the increase in the price of imported oil--the additional "tax" imposed by the oil-exporters--amounts to some 1.2 percent of 1973 GNP.

As can be seen in the appendix, the "tax", or increase in oil earnings by the oil-exporting countries, is expected to amount to some $60 billion in 1974 as earnings of OPEC countries, which were $25 billion in 1973, soar to $84 billion in 1974. b/ Part of this will be offset by increased purchases of goods and services by the oil-exporters.

In 1973, these countries bought some $20 billion worth of goods and services from the rest of the world. A 50 percent increase--an increase in purchases of $10 billion--could be readily financed but would be difficult to accomplish in one year. Yet, even if such an increase took place, it would leave the rest of the world with a deflationary impact of roughly $50 billion.

A greater increase in expenditures by the oil-exporting countries is not likely. As can be seen in table 2, a substantial part of the increase in revenue will accrue to Arab countries with limited absorptive capacity--small populations and unambitious programs for economic development. Even the other oil countries will experience a lag before they can turn their increased financial resources into effective purchasing programs.

a/ Mrs. Junz uses indirect tax elasticities derived from Bent Hansen (Fiscal Policy in Seven Countries, 1955-65, OECD, Paris, March 1969) or from national models.

b/ The data in the tables are roughly consistent. Such inconsistencies as exist do not alter the analytical or policy conclusions.

Table 2: Increase in Oil Revenues of OPEC Countries, 1974 over 1973

Arab Countries with limited absorptive capacity	$26.0 billion
Saudi Arabia	
Kuwait	
Abu Dhabi	
Other Pers. Gulf	
Libya	
Other Arab Countries	6.6
Iraq	
Algeria	
Other	
Other Countries	30.6
Iran	
Nigeria	
Other W. Africa	
Venezuela	
Other Latin America	
Indonesia	
Other Far East	
USSR & E. Europe	
OPEC	59.3
World Total	62.8

Source: Appendix.

Until that happens, the impact of the increase in the price of oil is certain to depress demand and income in the oil-importing countries. The fact that the increase in financial assets of the oil-exporting countries will be invested in the oil-importing countries does not offset this conclusion.

III. The Balance of Payments

The increase in the price of oil will have a staggering impact of the balances of payments of all countries. The most recent estimates, shown in table 3, are exceedingly rough but they suggest the following general conclusions:

--The oil exporting countries may earn some \$55 billion net in 1974, compared to \$6 billion in 1973.

--The United States, which ran an estimated surplus on current account (trade, services and private transfers) of \$4.5 billion in 1973 now is projected to run a deficit of \$1 to 2 billion (instead of an earlier forecasted surplus of \$9 billion).

--The United Kingdom and Japan especially, but Italy, France and Germany as well, face large current account deficits in 1974.

--Finally, the non-oil producing less developed countries, which ran a deficit of \$9 billion in 1973, are expected to show a deficit of \$23 billion in 1974 if it can be financed. With foreign aid running at \$8 billion, financing such a deficit will be quite difficult.

These estimates, which, to repeat, are subject to wide margins for error and are not forecasts, give a reasonable idea of the orders of magnitude involved in the change in the price of oil. The swings envisaged are enormous.

There would be no balance-of-payments problem if the oil exporting countries spent their increased earnings for goods and services, though there would be a major transfer of real resources from oil importing to exporting countries. (Indeed, until the latter increase their purchases in other countries, no real burden is placed on the oil importers.)

Nor would there be a balance-of-payments problem if the increased earnings of the oil exporters came back to the importers as either short-term or long-term investments. This is almost certain to happen at least for the next year and more. But these loans and investments would have to equal, country by country, the increase in net imports from the oil countries. This is a most unlikely constellation. Thus, 1974 seems certain to present the developed countries and the non-oil producing less developed countries with major policy problems.

Table 3: Balances of Payments on Current Account a/
($ billion)

	1972	1973	Projection: 1974 Before Dec. Oil Price Rise	Projection: 1974 After Dec. Oil Price Rise b/
Oil exporting countries	1.6	6.1	12.5	55.0
United States	-6.2	4.5	9.0	-1.5
All other countries	8.1	-1.1	-21.5	-53.5
Japan	7.0	1.5	-0.9	-6.0
France	1.0	0.6	-0.2	-3.7
Germany	2.2	5.5	3.6	-2.5
Italy	2.4	-1.4	-2.0	-3.5
U. K.	0.7	-2.4	-3.5	-7.5
Non-oil producing primary producers	-7.5	-9.0	-17.7	-23.0 c/

a/ Goods, services and private transfers.
b/ The estimates also allow for a somewhat lower volume of oil imports and additional exports to the oil producing countries.
c/ Largely non-oil LDC's, but also includes Sino-Soviet countries and errors and ommissions.

Source: First two columns: IMF, OECD "World Economic Outlook" December 26, 1973. Third: column Helen Junz of Federal Reserve. Last column: OECD, source, January 12, 1974.

IV. Policy Options for the United States and the Other Industrial Countries

The policy options open to the industrial countries seem clear. Most important, more than any time since the Great Depression of the 1930's, economic cooperation among the industrial powers is essential. This point seems obvious, but recent developments suggest that the cooperation may be no more forthcoming now that it was almost half a century ago.

The general lines of policy are not in dispute as broad principles. The communique of January 18, 1974 of the International Monetary Fund's Committee of Twenty meeting in Rome, spelled them out as follows:

> ...in managing their international payments countries must not adopt policies which would merely aggravate the problems of other countries. Accordingly, they stressed the importance of avoiding competitive depreciation and the escalation of restrictions on trade and payments. They further resolved to pursue policies that would sustain appropriate levels of economic activity and employment, while minimizing inflation. They recognized that serious difficulties would be created for many developing countries and that their needs for financial resources will be greatly increased and they urged all countries with available resources to make every effort to supply these needs on appropriate terms. The Committee agreed that there should be the closest international cooperation and consultation in pursuit of these objectives.

The only question is whether actions will conform to these principles.

These principles, with one major addition, and their rationale are spelled out below:

A. Reduce price of crude oil

Though not agreed by the Committee of Twenty, the most obvious and most effective policy would be to induce the OPEC countries to lower the price of crude oil. To do this, the rest of the world would have to show that such action is in the self-interest of the OPEC countries. Such an approach might be facilitated if it took place in an atmosphere which does not condone the OPEC action on price.

Arab spokesmen, certainly, but even a number of impartial observers in the American press and elsewhere suggest that the OPEC action is a normal and legitimate use of economic power, analogous to the pricing policies of American corporations. It is also argued that the action is moral as well since income is transferred from the rich to the poor. Both propositions are questionable.

If the oil countries were companies operating within the United States, they would be in violation of anti-trust laws and subject to civilian and criminal penalties.

Moreover, there is generally a close relationship between the cost of production of a product--the intellectual and physical effort involved--and its price. But Middle East oil costs an estimated 13 cents a barrel to produce a/ and the price to the oil companies is now about $7 a barrel, for a mark-up of some 4,000 percent. Nor are the price increases accomplishing a more equitable division of world income by taxing the rich to help the poor. As shown earlier, the non-oil less developed countries, which have incomes of some $300 per person, will be hit hardest. And the oil-rich countries of the Persian Gulf will have per capita incomes amounting to some thousands of dollars per person.

The OPEC countries might be persuaded to lower their price for a number of more compelling reasons:

1. They must realize that the large and precipitous rise in the price of oil is creating major economic problems for both the developed and less developed countries. As noted earlier, the increased price is a major stimulus to inflation and economic recession. With such conditions, all would lose. Sheikh Yamani, Minister of Petroleum of Saudi Arabia recognized this in a statement in Tokyo on January 27th.

2. Balance-of-payments problems and an economic recession would result in trade restrictions and reduced demand for all imports, so that attempts of the OPEC countries to diversify their economic base and to export oil would be inhibited.

3. The OPEC countries must recognize that the increased price of oil is encouraging the development of alternative sources of energy. The result could be lower prices for oil in the future so that oil-in-the-ground would be less valuable than oil sold today.

4. Finally, the OPEC countries must recognize that if business and governments make major investments to develop alternative sources of energy, they will protect these investments through import restrictions if necessary. This implies future economic problems for oil exporters.

a/ This is the cost for Persian Gulf oil; other costs are higher: 38 cents in Nigeria, 40 cents in Venezuela, 45 cents in Libya, 75 cents in Algeria, and $1.08 in the United States and Canada.

B. Policies to offset economic recession

The developed countries must take positive measures to avoid letting the deflationary impact of the increase in the price of oil run its course. And, countries must not let fear of balance-of-payments deficits inhibit expansionary economic measures.

If all the developed countries move to expand their domestic economies together, the adverse balance-of-payments impact will be minimized. And, as the largest single economic unit, the United States has a special responsibility not to let itself and the world continue its slide into an economic recession.

C. Balance-of-payments policies

There are two basic ways countries can meet a balance-of-payments deficit. They can finance it. They can adjust to it--encouraging economic changes which will wipe out the deficit.

There are good reasons why financing the deficit is the preferred route for most countries in 1974.

--First, the adjustment required is enormous--of the order of $55 billion, as can be seen in table 3.

--Second, it is clear that all countries will be unable to adjust--that the non-oil importers, as a group, will necessarily run a trade and balance-of-payments deficit. Thus, the attempt of one country--France, for example--to get a balance can succeed only at the expense of another country--the United States or Germany, perhaps.

--Third, currency devaluations or depreciations can only contribute to further inflation and serious social problems in the devaluing country.

The increase in oil prices will throw every major country's balance of payments into deficit. To avoid this having an unhappy psychological effect on policy, oil imports--or at least the increase in the value of oil imports--could be excluded from the normal trade account. This segregation of data would be only cosmetic, but it could clarify thinking about appropriate policy.

Financing: The oil producers will have to lend or invest most of their sharply increased earnings to the rest of the world. There is no alternative. Indeed, much of the increased earnings may well accrue to the United States with the most developed and sophisticated capital market.

The OECD countries can "recycle", or relend, the loans and investments of the oil countries to those in need of such finance. There is ample precedent for this.

Much of this "recycling" will be done by market forces. However, if they prove inadequate, governments, the IMF and national central banks can complete the task.

If the oil producers buy gold or SDRs from central banks and reduce the amount of monetary reserves thereby, the international community can replace these assets by another issue of SDRs.

Adjustment: There will be a temptation for countries to try to adjust their balances of payments rather than borrow to finance their 1974 deficits. Some countries may try to hold or attract reserves in a variety of undesirable ways--by raising interest rates above what would be required for domestic economic reasons, or by enduring deflation and unemployment. If they do, unemployment will be intensified and passed on to other countries.

There will be a temptation for countries to let their currencies float--or sink--or to restrict imports in order to restore their trade surpluses and slow their losses of financial reserves.

But countries must recognize that such actions will not draw funds from the oil producers, but will merely shift reserves from one industrial country to another. The result will be unhappy in both economic and political terms as unemployment is exported to other countries.

Real cooperation among the industrial powers is needed. The countries will have to work out common policies on:

--interest rates specifically and overall economic policies more generally;

--exchange rates--the free market or floating solution could be disasterous in 1974 however useful it was in 1973 and might again become in the future.

The argument for coordinating the monetary and fiscal policies of the major countries is clear and not controversial. This is not true of the proposition on exchange rates.

The argument against letting the market decide on the appropriate exchange rate during this period of great strain on every nation's balance of payments is twofold. First, the market generally exaggerates the influence of new factors. Second, as a result, major and partly unnecessary economic adjustments are forced on countries. These can be quite costly in terms of unemployment and inflation.

Recent events may provide an example. Since the beginning of the oil crisis the effective devaluation of the dollar has been cut in half. This reflects the assessment of the market that the United States will be relatively much less damaged by the rise in oil prices than the other major nations. The result will be to stimulate U.S. imports and to inhibit U.S. exports. Unless countervailing action is taken, this could result in increased unemployment in the United States. In addition, the depreciation of the European currencies and the Japanese yen will contribute to inflation in both areas with resultant social turmoil, and without affording any clear relief to their balances of payments.

D. Less Developed Countries

It is clear that the non-oil producing LDCs face especially difficult times. In order to maintain their recent rate of economic growth they will need at least a doubling of economic aid to finance the balance-of-payments deficit due solely to the increased price of oil.

There are only three ways out of the impasse:

--First, the LDCs will have to restrict imports or reduce domestic demand, if they cannot finance the increased deficit. This means more unemployment, a lower rate of economic growth, if any, at home, and increased deflationary pressure on the developed countries.

--Second, the usual aid donors could double or triple their aid directly or provide a special credit facility in the IMF or World Bank for loans to the LDCs. The oil producers could provide the financing and would ask for guarantees on their investments plus a reasonable rate of return.

This approach has serious drawbacks. The LDCs already have too heavy a burden of indebtedness. Their ability to repay new loans is seriously in doubt. And, such loans would not finance capital improvements which would result in future increases in output, but would merely finance current consumption. Thus, the liklihood is that there would be defaults on the new loans leaving the IMF or World Bank and, consequently, the major developed countries with another burden in addition to the one placed directly on them by the oil producers.

--The third way to meet the LDCs problem is for the oil producers to finance directly the increased balance-of-payments deficits of the LDCs. The oil producers created this special problem, they ought to be prepared to help ease it. They have ample financial resources to help.

V. Another Look at the Numbers

It is most unlikely that the projections for 1974 in this report will actually be realized. There are three basic reasons for this:

--First, it is unlikely that the less developed countries will be able to finance all of the increased cost of imported oil. Thus, their imports will be less--as will their deficit--than the projections in table 3.

--Second, the sharp increase in oil prices is likely to restrict demand. The First National City Bank estimates, roughly, that the 140 percent increase in prices since October will restrain world demand by some 10 percent in 1974. In addition, conservation measures, principally in the United States but elsewhere as well, will also cut demand.

--The drop in the demand for oil will be reflected in a fall in price. This is put at roughly $2 per barrel.

The impact of these factors on the increase in earnings of OPEC countries is summarized in table 4, below.

Table 4.--The Increase in Oil Exports of OPEC Countries, 1974
(billions of dollars)

	From OECD countries	From non-OECD countries	Total
Potential rise in receipts	$50	$10	$60
Fall in demand due to high prices	- 8	- 2	- 10
Assumed $2 price cut in June 1974	- 8	- 2	- 10
Actual increase in receipts	34	6	40
Amount spent on imports	- 8	- 2	- 10
Available for investment	26	4	30

Source: Monthly Economic Letter, February 1974, First National City Bank.

The resultant strain on the world economy and the policy options are not significantly changed by even such a major change in the financial estimates for 1974.

Appendix--Petroleum Exporting Countries: Oil Exports and Revenues

	Exports: Million Barrels a Year: 1972	1973	1974	Revenues: $/Barrel 1972	1973	1974	Total Oil Revenues: Million 1972	1973	1974
Arab Countries with limited absorptive capacity	4,897	5,270	5,125	1.509	2.19	7.32	7,390	11,524	37,516
Saudi Arabia	2,163	2,664	2,600	1.437	2.06	7.00	3,107	5,500	18,200
Kuwait	1,176	1,022	1,000	1.409	2.02	6.90	1,657	2,064	6,900
Abu Dhabi	384	425	425	1.434	2.09	7.15	551	890	3,039
Other Pers. Gulf	361	393	410	1.323	1.96	6.85	477	770	2,808
Libya	813	766	690	1.966	3.00	9.52	1,598	2,300	6,569
Other Arab Countries	815	1,095	1,235	1.700	2.58	7.67	1,386	2,832	9,472
Iraq	382	680	850	1.507	2.50	7.10	576	1,700	6,035
Algeria	373	365	330	1.877	2.74	9.00	700	1,000	2,970
Other	60	50	55	1.833	2.65	8.50	110	132	467
Other Countries	4,377	5,085	5,485	1.587	2.47	7.88	6,945	12,580	43,209
Iran	1,752	2,080	2,280	1.358	2.16	6.95	2,380	4,500	15,846
Nigeria	628	730	850	1.870	2.90	8.80	1,174	2,117	7,480
Other W. Africa	81	93	120	1.870	2.90	8.80	151	270	1,056
Venezuela	1,133	1,168	1,130	1.719	2.57	8.55	1,948	3,000	9,661
Other Latin America	82	110	125	1.719	2.57	8.55	140	383	1,069
Indonesia	330	475	560	1.748	2.53	8.65	577	1,200	4,844
Other Far East	67	79	90	1.748	2.53	8.65	117	200	778
USSR & E. Europe	304	350	330	1.500	2.60	7.50	458	910	2,475
OPEC	9,495	10,768	11,125	1.553	2.32	7.58	14,745	25,041	84,352
World Total	10,089	11,450	11,845	1.558	2.35	7.57	15,721	26,936	89,725

Note: The data for 1972 are actual; for 1973, estimates; and for 1974, projections.

Source: Federal Reserve Board, January 9, 1974.

Mr. Ashley. The subcommittee will be in recess until 10 o'clock tomorrow morning.

[Whereupon, at 12:10 p.m., the subcommittee was recessed, to reconvene at 10 a.m., Tuesday, April 23, 1974.]

INTERNATIONAL ECONOMIC POLICY

TUESDAY, APRIL 23, 1974

House of Representatives,
Subcommittee on International Trade
of the Committee on Banking and Currency,
Washington, D.C.

The subcommittee met at 10:15 a.m., pursuant to recess, in room 2128 Rayburn House Office Building, Hon. Thomas L. Ashley (chairman of the subcommittee) presiding.

Present: Representatives Ashley, Rees, Mitchell, St Germain, McKinney, Frenzel, and Conlan.

Mr. Ashley. The subcommittee will come to order.

Today we continue our hearings on international economic policy legislation, with our focus on two of its instruments, export credit and export control. This morning we will be taking testimony from three public witnesses. Our procedure will be to receive opening remarks from each, in which they orally summarize the prepared statements that have been submitted to the subcommittee. Following these remarks, the members of the subcommittee will have the opportunity to engage in colloquy with each of the witnesses.

Our first witness this morning is Charles I. Derr, senior vice president of the Machinery and Allied Products Institute. Testimony given by the institute on previous occasions before the subcommittee has been a worthy and helpful contribution in the formulation of international economic policy.

It is a pleasure to welcome you here today, sir, and please proceed as you see fit.

STATEMENT OF CHARLES I. DERR, SENIOR VICE PRESIDENT, MACHINERY AND ALLIED PRODUCTS INSTITUTE

Mr. Derr. Mr. Chairman and members of this distinguished subcommittee, I think perhaps I should explain at the outset, Mr. Chairman, that Charles Stewart, the president of the Machinery Institute, who has appeared before this subcommittee in the past, is ill, and therefore was unable to appear, a circumstance which both of us regret.

We appreciate this opportunity of presenting testimony on legislative proposals relating to export financing and export controls. As you know, the institute represents American capital goods and allied industrial equipment manufacturers who have, collectively a very substantial stake in export trade.

One measure of that stake is that in the first 11 months of 1973, U.S. exports of machinery equipment totaled $15.6 billion, or almost one-fourth of the total U.S. exports of $63.3 billion.

I intend, as the chairman has suggested, simply to summarize our written statement, commenting briefly on each of the three main topics with which it deals. However, I do ask permission of the Chair that our full statement be included in the printed record of these hearings.

First let me comment, if I may, on what we regard as a developing negative attitude toward exports in the United States. This attitude is a product of our improved balance of payments situation, which in turn is largely attributable to successive devaluations of the dollar and resulting currency realinements. In part, this attitude has resulted from inflation and shortages.

Evidence that this attitude exists appears both in the administration and in Congress. We have seen recently an attempt by the Federal Energy Office to deter Export-Import Bank financing of the export of so-called energy related equipment; an increase in the Export-Import Bank's lending rate from 6 to 7 percent; and attempts by the Cost of Living Council in decontrol negotiations to restrict exports.

Legislative proposals would restrict exports of fuels and energy related equipment, restrict the export of specific commodities and/or relax the criteria for imposition of "short supply" controls under the Export Administration Act, and eliminate or reduce the benefits of domestic international sales corporations under appropriate provisions of the Internal Revenue Code.

With sharply increased costs of importing fuels and other raw materials now in prospect, our current trade surplus is likely to be short lived. Moreover, the contest for export markets will be intensified as other nations seek to increase their exports to cover increased costs of energy imports. Faced with these possibilities, we feel strongly that reaction to relatively short-term influences ought not be permitted to hobble our longstanding national policy in favor of a strong and continuing export effort.

Now let me comment briefly on legislative proposals relating to the Export-Import Bank. The Bank has requested an increase in its operating authority, and we support that request. We see no lessening of the need for an effective program of financing assistance to U.S. exports which at least matches the assistance provided to exporters in competitior nations.

Table 1 to our principal statement sets forth the ratio of imports to exports of all machinery—and similar ratios for 10 major subcategories thereunder—over the period from 1961 through September 1973. As is evident, we have lost ground steadily over this period of time, although thanks in large part to successive devaluations of the dollar, we lost ground less swiftly in 1973. With financing a crucial, indeed an indispensable, element in the sale of capital goods, the evidence of the past points to the need for a strong continuing program of export assistance by the Bank.

In its statement of condition fiscal year, 1973, the Bank suggests future export opportunities of enormous magnitude. For American exporters to avail themselves fully of such opportunities, the Eximbank will need greater operating authority.

Now, as to proposed restrictions on financing transactions in Communist countries, proposals before this subcommittee would prohibit Eximbank financing of transactions and deny most-favored-nation tariff treatment to any Communist country—except Yugoslavia and Poland—which does not recognize the right of emigration. We welcome the opportunity to comment on the economic impact of such proposals since this aspect of the question has not yet been considered in congressional hearings.

Permit me to suggest some things which we think deserve most careful consideration before such proposals are finally adopted. First, the denial of U.S. Government export financing to countries which do not recognize the right of emigration would have an immediate adverse impact on U.S. exports of capital goods, and of course, upon employment in those industries.

Second, Communist countries, including the Soviet Union, would be denied few if any of the products which their economies require.

Third, although U.S. exports to Eastern European Communist countries are a small part of Western trade with such countries, so-called détente—reflected not only in our Government's dealings with the Soviet Union but in congressional enactments such as the 1971 amendments to the Export-Import Bank Act, the Export Administration Act—and commercial agreements relating to détente present a rare opportunity for the substantial enlargement of U.S. exports. Many American capital goods manufacturers, relying upon what they regarded as a firm change in Government policy, have expended significant amounts of time and money in pursuit of these opportunities.

Adoption of the proposals just described will mean that most of this effort, both governmental and private, will have been lost. We seem to have followed a stop-and-go policy with reference to trade with Eastern European nations. Throughout most of the years of the so-called cold war, the policy was stop. Two years ago in response to the actions I just described, business was given the green light, and now we seem to be on amber.

Business cannot plan, business cannot undertake the kind of expenditures of time and effort needed to pursue these export opportunities with a policy of stop and go.

Fourth, the Export-Import Bank treats all borrowers alike. Communist borrowers receive no better deal than anyone else, nor can they be expected to accept lending terms less favorable than the Bank offers to other countries.

Fifth, a denial to Communist countries of most-favored-nation tariff treatment can have consequences fully as serious over the longer term as a prohibition on export financing to such countries.

Let me comment very briefly on other proposals now before Congress. First, it is suggested that the President should be required to make a national interest determination for each Eximbank transaction with a Communist country; and second, it is proposed, that any such transaction must await congressional adoption of a concurrent resolution determining that the transaction is in the national interest. We think either scheme would be wholly unworkable.

Assuming that the larger question of authority to finance exports to Communist countries is decided affirmatively we think the present system of surveillance and review by the National Advisory Council

on International Monetary and Financial Policies of the Eximbank's operating policies and its more sensitive actions makes individual determinations unnecessary. By any reasonable standard, the Bank has done a prudent and workmanlike job. It should be given the discretion to continue doing so.

Now, concerning the Export-Import Bank and the unified budget. The proposed Congressional Budget Act of 1974 as passed by the Senate would remove the present exclusion from the U.S. budget of the Export-Import Bank and certain other agencies. Although we applaud the motivations of Congress in revamping its budget review procedures, the considerations which led to the exclusion of the Eximbank in annual budget limitations in the first place are still perfectly valid. For effective operation, the Bank must, for example, have authority to make advance commitments in cases where actual disbursements may not occur for some years in the future. The requirements of the international commercial scene may not in any given year be in phase with domestic budgetary strategy. To fulfill its broader mission of keeping U.S. exporters competitive, the Bank must have the flexibility to respond swiftly to changing circumstances abroad.

Now, finally, some comments concerning proposals to amend the Export Administration Act. The administration has recommended amendments that would declare it to be U.S. policy first to use export controls "to the extent appropriate to retaliate against a nation or group of nations which have unreasonably restricted U.S. access to their supply of a particular commodity," and second, to deal with world shortages of particular commodities wherever feasible through international cooperation with major supplier and consumer nations rather than by unilateral action.

A further administration proposal for amendment would require firms entering into agreements with Communist countries—other than Yugoslavia—which are likely to result in exports by the U.S. firm or its foreign affiliates of U.S. origin proprietary technical data, to report the details of the transaction to the Secretary of Commerce within 15 days after entering into such an agreement.

In addition, a number of bills have been introduced in both Houses of Congress which would require either that the criteria for imposition of "short supply" controls be eased, or that controls be imposed on specific commodities which are considered to be in short supply in the United States. Other bills have been introduced to arm the President with an array of powers to retaliate against foreign countries which restrict their exports to the United States.

Export restraints would have an adverse impact on established supplier-customer relations, including relations with customer governments, and affect our balance of trade for this and later years. This is especially true in the case of capital goods manufacturers for whom a successful international marketing program represents years of effort and substantial costs. Failure to win a particular sale can adversely affect sales for years to come because of a loss of follow-on orders for expansion and replacement.

It seems to us inappropriate, except in cases of genuine domestic emergency, to restrain exports at a time when our Government and other governments seem to be moving toward a code of good behavior on the part of supplying nations. We believe that the problem of

access to needed raw materials as well as manufactured products should be dealt with through multilateral action.

To the extent that any "short supply" export controls are enacted, we believe their invocation should be made to depend upon criteria which are as specific as possible, including independent review, perhaps by the Tariff Commission, time limits for the effectiveness of such controls, and/or requirements for public hearings. At the very least, companies injured by such controls should have a statutory right to present their objections after the imposition of such controls.

As for national security export controls, we do not believe that adequate justification has been presented to support the proposed requirement that any person entering into an agreement which is likely to result in a transfer of U.S. origin technical data which is not generally available, is to "report the details of the transaction to the Secretary of Commerce and provide him with copies of documents pertaining to such transaction within 15 days from entering into such written understanding." Technical cooperation agreements between the Soviet Government and U.S. companies, those agreements referred to by the Department of Commerce in its justification, are usually general in nature and record simply the intention of the parties to work out exchanges of technology subject to subsequent agreements on the commercial aspects of specific exchanges.

We believe companies would not object to advising the Department of Commerce as to types of technology which might ultimately be transferred, but to reduce to paperwork, we think the pertinent language should be revised to require only reporting to Commerce those agreements requiring transfers of specific kinds of technology.

Moreover, agreements with East European countries increasingly tend to be conventional licensing agreements, joint ventures, or what have you, the details of which—licensing fees, arrangements for profit remittances and so forth—are extremely confidential, and which companies are unwilling to report outside the company.

Given Commerce's limited statutory responsibility to control exports of U.S. origin technology and products, the Department of Commerce does not need to receive copies of documents pertaining to agreements of this type. It appears to us that the Department's needs would be met if it is informed of agreements in which U.S. companies undertake to provide to Communist countries specific types of U.S. technology not generally available. Actual transfers of such technology require a case-by-case approval by the Department of Commerce in any case.

Mr. Chairman, that concludes my oral remarks, and I will be glad to try to answer any questions the subcommittee may have.

[The prepared statement of Mr. Derr on behalf of the Machinery and Allied Products Institute follows:]

Prepared Statement of Charles I. Derr, Senior Vice President of the Machinery and Allied Products Institute

We appreciate the opportunity to present our views on the proposed legislation before this Subcommittee related to export financing and export controls. As you know, the capital goods and allied equipment manufacturers represented by the Institute have a vital stake in foreign trade.

Permit me to summarize the contents of our statement. After some brief initial observations on what seems to us to be a developing negative attitude

toward exports in this country, we comment on proposals before this Subcommittee with respect to amendment of both the Export-Import Bank Act and the Export Administration Act. With respect to the former, we support an increase in the operating authority of the Bank; oppose further broad restrictions on Bank financing of transactions in Communist countries, including proposals to require individual "national interest" determinations with respect to such transactions by the President or the Congress; and question whether the Bank would be able to effectively support U.S. exports if its annual expenditures are included in the Budget. In our comments concerning proposals to amend the Export Administration Act, we urge that short supply controls continue to be implemented very selectively and that firms which have been adversely affected by such controls have a statutory right to have their grievances heard by an agency of the government in the same manner as those harmed by modifications in import restrictions have an opportunity to be heard. With respect to the proposed change in "national security" controls, we believe the requirement that companies provide copies of agreements which may involve a transfer of technology is too broad; in our view, the needs of the Department of Commerce would be met if it were informed about agreements that will involve transfers of technology and the specific types of technology that probably will be transferred as a result of the agreement.

THE DEVELOPING NEGATIVE ATTITUDE TOWARD EXPORTS

In part because of the marked improvement in our balance of trade flowing from the successive dollar devaluations and currency realignments and in part because of shortages and inflation, a negative attitude toward exports has developed in the Congress and, to some extent, in the Administration. We are concerned that with the sharply increased costs of imports of energy and raw materials, there is a strong likelihood that our trade surplus will be short-lived and competition for exports from other industrial countries will be intense as those countries seek to expand their exports to cover increased costs of energy and as a matter of general governmental policy. Because of these increased costs, many economists are projecting that the United States will return to a deficit balance-of-trade position this year. Thus, we could pay a heavy price for any current or future exports which are lost as a result of export restrictions or the failure to provide adequate export financing.

The negative developments with respect to exports to which I have referred include the following. Within the Administration, the Federal Energy Office (FEO), through the National Advisory Council on International Monetary and Financial Policies (NAC), is seeking to deter the Export-Import Bank from financing exports of certain types of "energy-related equipment" considered to be in short supply. In addition, the Export-Import Bank recently was required, for a number of reasons in the government view, to increase its lending rate from 6 percent to 7 percent—a move which, according to the Bank, makes the effective interest rate of the transactions in which it is involved higher than any of our major competitors except Germany. In another area, the Cost of Living Council is seeking commitments from companies in decontrol negotiations which would restrict their exports. With respect to the Congress, the proposed "Energy Emergency Act"—which was vetoed by the President but presumably will be taken up again in revised form—contained broad powers for the Secretary of Commerce and the Administrator of the proposed successor agency to FEO to restrict exports of certain fuels and materials and equipment essential to production, transport, or processing of fuels. With respect to the legislation now before the Subcommittee, a number of bills have been introduced which would restrict exports of specific products and/or relax the criteria for the imposition of "short supply" controls under the Export Administration Act. Somewhat further afield, in the tax area, there is at least some congressional sentiment in favor of eliminating the Domestic International Sales Corporation (DISC) provisions of the Internal Revenue Code or at least to exclude from DISC treatment certain items considered to be in short supply.

We recognize that there are limits on the extent to which the United States should aggressively promote exports in the present environment of inflation and shortages, and that there may be some instances where a domestic shortage is having such a crippling effect on the U.S. economy that the item involved is needed domestically on almost an emergency basis. However, an overreaction to domestic shortages, most of which, hopefully, will be of a temporary nature and are being and will be relieved to some extent at least by price decontrol,

should not be permitted to result in broad restrictions which could hamper exports in the long run. In brief, longstanding U.S. national policy which calls for a strong and long-term export effort designed to achieve maximum export results should not be hobbled in response to short-term influences except to the extent that certain actions detrimental to exports may be made necessary by circumstances of an absolutely critical nature.

COMMENTS ON LEGISLATIVE PROPOSALS RELATED TO THE EXPORT-IMPORT BANK

The need for expansion of bank operating authority

While the two devaluations of the dollar and the currency realignments have improved the competitive position of U.S. companies, we foresee no diminution in the need for an effective program of export financing assistance to U.S. exporters which matches the assistance provided to exporters in competitor nations. As will be noted on Table I attached to this statement, the competitive position of U.S. machinery manufacturers, in terms of the ratio of imports to exports, continued the decline of recent years through the first nine months of 1973, but the rate of decline was less than that of previous years.

The projections of Eximbank activity submitted to the Congress by former Bank Chairman Henry Kearns and by the present Chairman, William J. Casey, and those contained in the Bank's *Statement of Condition, Fiscal Year 1973* provide impressive statistical background for the Bank's request for an increase in operating authority. (For example, the Bank foresees potential exports in the next five years of between $9.75 billion and $12.5 billion for projects related to natural gas, and requests for financing of nuclear power facilities before the Bank when the report was prepared would require $1.7 billion to $2.5 billion in financing.) We can only add some seconding comments with respect to the discussion of prospective "major projects." As the Bank has observed, many of these projects are important not only in the sense that they would be beneficial to U.S. firms, workers, and our balance-of-payments position but also because they would provide an additional source, for the United States and other countries, of resources in short supply. This is true of course most vividly in terms of immediate U.S. needs with respect to projects involving energy (LNG plants and vessels, petroleum refineries and pipelines, etc.) and minerals (copper, iron ore, etc.). These projects, as well as other large projects in such areas as hydroelectric power, nuclear power, transportation, chemicals and petrochemicals, steel mills, etc., will require very large amounts of financing and we believe Eximbank's ability to offer financing on competitive terms will be crucial if U.S. firms are to win a substantial share of the orders. Further, these projects offer the prospect not only for improvement in our balance-of-trade position in the years immediately ahead but also for many years into the future as U.S. firms benefit from follow-on business for these installations.

We would also like to comment at this point on the view being expressed, in government circles, that with floating exchange rates export expansion facilities, such as the Export-Import Bank, are not needed to assist the United States in maintaining a favorable balance of trade. While there may be some validity in this point of view with respect to certain products (largely consumer items) which are purchased mainly on the basis of price, it is certainly not true for the capital goods industries. The products of these industries generally are sold on terms of up to five years or longer and in making such sales credit terms (and service facilities) figure as importantly in a sales proposal as price. In addition, as noted above, it appears to us that major projects, running into tens of millions of dollars and higher and requiring maturities well beyond five years, will become an even more important part of the export scene. The ability to offer export financing on competitive terms will be crucial for U.S. bidders on these projects, and it is extremely improbable that the private financial community could provide the amounts needed or provide the financing on terms competitive with those being offered by foreign firms supported by government export credit facilities.

Proposed restrictions on Export-Import Bank financing of transactions in Communist countries

As passed by the House, H.R. 10710, the proposed "Trade Reform Act," would prohibit Eximbank financing of transactions in, and deny most-favored-nation tariff treatment to, any Communist country (except Yugoslavia and Poland) which does not recognize the right of emigration. Since hearings have not been held in either House of Congress as to the potential economic impact

of the proposal on the countries of Eastern Europe *and* the United States, we welcome the opportunity to offer our views on this matter.

If such a proposal is enacted by the Congress, it would *reverse* the Administration's actions in extending (1) the Export-Import Bank's export credit and insurance programs to the Soviet Union and Romania and (2) the Overseas Private Investment Corporation's investment insurance program to investments by U.S. companies in Romania. In addition, it would prevent the Administration from extending MFN tariff treatment to imports from any of the Communists countries, except Poland and Yugoslavia whose imports already enjoy such treatment.

We appreciate that some of the congressional support for these provisions reflects concern over such fundamental questions as the direction of U.S.-Soviet Union relations and the extent to which U.S. foreign policy can broaden the rights of citizens in Communist countries. However, it must also be recognized that a further interruption in the normalization of relations with the Communist countries could—and quite possibly would—result in an immediate loss of trading opportunities, a virtual cancellation of time and money heretofore expended by American business in pursuit of those opportunities, and in a reorientation of attitudes toward trade on the part of those countries and U.S. businessmen that could take years to reverse.

Impact of denial of U.S. Government financing.—Proposals which would deny U.S. Government financing to countries which do not recognize the right of migration would, we believe, have an immediate adverse impact on U.S. exports of capital goods since they are highly sensitive to the cost and availability of export credit. In our view, the public discussion of the financing question and certain related aspects of trade with the Communist countries of Eastern Europe has reflected some misunderstanding of the issues involved and we would like to offer the following comments:

1. With respect to the capital goods and allied equipment industries, withdrawal of Export-Import Bank participation in sales to Eastern Europe would not result in the denial of any significant number of products important to the Soviet (and other East European) economies but would result in the replacement of U.S. suppliers to those countries by suppliers from the industrial countries of Western Europe and Japan. (As discussed below, the Senate Committee on Banking, Housing and Urban Affairs also reached this conclusion in its 1971 review of this question which resulted that year in the removal of the Export-Import Bank Act's absolute prohibition on Bank activities in most Communist countries.)

2. The rate of interest and other terms of Export-Import Bank export financing to the Soviet Union and the other eligible countries of Eastern Europe do *not* constitute "aid": they are the same terms offered to borrowers in other countries. Credit is no less a sales tool in Eastern Europe than in other areas and the government-supported export credit facilities in our major competitor nations support sales to Eastern Europe in the same manner as to non-Communist countries. Earlier this month Export-Import Bank Chairman William J. Casey testified before the Subcommittee on International Trade of the Senate Banking, Housing and Urban Affairs Committee that the export credit agencies of the other industrial countries have loaned 16 times as much to the Soviet Union as has the United States.

3. Trade with the Soviet Union and the other countries of Eastern Europe is of significant interest to U.S. firms of varying sizes and product lines. For example, over the past year or so a number of firms which produce machine tools and other equipment for the automotive industry have received substantial orders from the Soviet Union. While these firms are not "small businesses" in the legal sense of the term, they generally have annual sales of less than $100 million. Many of these companies could not finance the transactions themselves and it is extremely unlikely that financing on competitive terms could be obtained from U.S. commercial banks.

The limited role of the United States as a supplier of capital goods to East European countries and the Export-Import Bank's lending policies are discussed in more detail below.

U.S. share of capital goods exports to Eastern Europe by leading industrial nations.—As noted earlier, the termination of Export-Import Bank operations in the Soviet Union and Romania would adversely affect the capital goods industries because the products of those industries are customarily sold on medium-

term credit *and* such sales are customarily supported by government export financing facilities in the major industrial countries.

Table II appended to this statement shows the *volume* of exports of machinery and transport equipment to the Communist countries of Eastern Europe accounted for by the U.S. and other members of the Organization for Economic Cooperation and Development (OECD), which includes all of the leading industrial nations. Table III shows the *market share* for exports of machinery and transport equipment to Eastern Europe accounted for by the U.S. and other OECD members. In brief these data show that:

> Although U.S. exports of machinery and transport equipment to Eastern Europe, including the Soviet Union, more than tripled from $29 million in 1968 to $98 million in 1972, the U.S. share of capital goods exports to the area only doubled, and then from a low base, from 2 percent to 4 percent. (By way of comparison, the U.S. share of OECD exports of capital goods to *all* countries was more than 20 percent in both years.)
>
> U.S. exports of capital goods to the *Soviet Union* increased from $14 million in 1968 to $61 million in 1972, but the U.S. share of OECD exports to that country in 1972 was still only 6 percent.[1]

The data concerning trade in capital goods between the United States and Eastern Europe show the slight dependence of the area on U.S. suppliers and, given the advanced state of industrial technology in Western Europe and Japan, there are few products which the Communist countries could obtain only from the United States.

Views of Senate Committee on Banking, Housing and Urban Affairs in 1971 regarding restrictions on Bank activity in Eastern Europe.—It has been only two and a half years since the Congress removed the absolute prohibition on Export-Import Bank activities in most Communist countries. The report issued by the Senate Committee on Banking, Housing and Urban Affairs on the bill relaxing the prohibition included the following comments on the matter of restricting Export-Import Bank activities in Eastern Europe:[2]

* * * * * * *

> Trade with Eastern Europe comprises approximately 16 percent of total world trade. However, the U.S. share of this market is only 3 percent. Yet, the Eastern European marketplace is one of the fastest growing in the world. None of the allies of the United States similarly restrict themselves on export credit to Eastern Europe. They treat Eastern European business the same as all other business.
>
> To retain this anachronistic restriction [on extensions of Eximbank support of exports to Eastern Europe] in view of all the circumstances will only serve to inhibit the growth of U.S. exports, penalize American business, and restrict improvement in our currently adverse balance-of-payments situation.
>
> The restriction denies no product to Eastern Europe; the business merely goes elsewhere. . . .

* * * * * * *

> The act [Export Administration Act] directed the Department of Commerce to encourage trade in peaceful, nonstrategic goods with the nations of Eastern Europe in order to strengthen political ties, to further weaken the dependence of the Eastern European nations upon the Soviet Union, and to make our own controls more consistent with those of our Western allies.
>
> The full attainment of these positive goals in our relations with Eastern Europe is not possible so long as we absolutely prohibit Export-Import Bank assistance for exports to those countries. By giving the President the authority to permit Export-Import Bank assistance to those transactions which

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[1] It should be noted that, as a result of the commercial agreements between the United States and the Soviet Union in October 1972 and the extension of Export-Import Bank financing to that country, U.S. exports of capital goods to the Soviet Union increased substantially during 1973. According to statistics compiled by the U.S. Department of Commerce which are roughly comparable to the OECD data cited above, U.S. exports of machinery and transport equipment to the Soviet Union during January–September 1973 totaled $136 million, more than doubling the level for all of 1972. Comparable data concerning 1973 capital goods exports to the Soviet Union by the other leading industrial nations are not yet available. However, even if the total volume of trade between the Soviet Union and the OECD countries remained at 1972 levels, the U.S. share of market would only be 13 percent.

[2] Report No. 92–51, U.S. Senate, 92d Cong., 1st sess., Mar. 31, 1971, pp. 8–9.

he finds will be in the national interest, we are giving him the flexibility necessary to vigorously pursue increased U.S. exports and at the same time fully protect the security of the Nation.

* * * * * * *

As noted previously, we believe the Committee's observations are equally valid today.

The terms of Eximbank loans to Eastern Europe.—It is true that, when the Export-Import Bank's direct lending rate of 7 percent is below the cost of money to the Treasury, there is some element of "subsidy" in its operations. However, this is the Bank's rate for direct lending in *all* markets, non-Communist as well as Communist and it is wholly consistent with congressionally established policy. The Bank has been directed by the Congress, through amendments to the Export-Import Bank Act, to provide export financing on terms fully competitive with the government-supported export financing provided by our major competitors To meet the competition, the Bank's policy with respect to its direct lending activity is to lend one-half of the financed portion of a transaction (with a 10 percent down payment by the borrower, this is generally 45 percent of the sale price) at 7 percent interest; the other half of the financed portion must be obtained from private sources at the going commercial rate. The mixing of the Eximbank and private rates provides a rate to the customer well above the 7 percent charged on the Bank's portion of the loan not so high as to price U.S. exporters out of world markets. (With a prime lending rate of 10 percent, which is general now, the mixed rate to a borrower on a direct loan transaction would be 8 percent or above.) The Bank adopted this approach because most of our major competitors, traditionally more aggressive in pursuing export business, isolate export financing from domestic monetary policy through a rediscount system or other techniques which enable them to provide export financing in adequate amounts at interest rates below those prevailing domestically. Export-Import Bank Chairman Casey indicated in testimony before the Subcommittee on International Finance of the Senate Committee on Banking, Housing and Urban Affairs earlier this month that the effective cost of the Bank's export credit generally is higher than that of all our major competitors except Germany.

It also should be noted that loans to the Soviet Union do not constitute a large portion of total Bank lending, although these loans are largely responsible for the increase in capital goods sales registered in 1973 and will be critical in any future expansion. During 1973 the Bank approved loans to the Soviet Union totaling $157 million, 5.3 percent of total loans of $2.98 billion to *all* areas during this period.

Further implications of an interruption in Export-Import Bank financing of exports to Eastern Europe.—The development of trade relations between the United States and the countries of Eastern Europe was hampered for many years by government policies and attitudes. However, the publicity surrounding President Nixon's visits to Eastern Europe and pronouncements concerning "detente," the more positive attitude of the Congress toward trade with Communist countries reflected in the Export Administration Act and the 1971 amendments to the Export-Import Bank Act, the conclusion of commercial agreements with the Soviet Union last year, and the determination by the President that it is in the national interest for Eximbank to participate in transactions with the Soviet Union, Romania and Poland, convinced a number of capital goods companies which previously had been reluctant to commit the necessary resources to establish trade relations with those countries that our government's policy was finally committed to expanding such trade.

For most U.S. companies, and particularly for those in the capital goods industries, an effort to develop trade with the Communist countries represents a substantial commitment of funds and personnel. These countries pose unusual problems in terms of marketing research, establishing useful relationships with purchasers and users, and the length and complexity of contract negotiations. In many cases the successful completion of negotiations requires months and even years of effort for manufacturers of machinery and related equipment. The sales effort by such firms must also be accompanied by an expensive augmentation of parts and service facilities for customers. If the Congress were to deny Export-Import Bank participation in this trade, sales of U.S. machinery and other equipment would be lost and, perhaps more importantly for the long run, many companies whose products customarily are sold on medium-term credit would curtail their efforts in the Communist market and thus much of the momentum gained in the last few years toward U.S. penetration of these markets would be

lost. The type of sustained effort necessary to establish a position in these markets which, for all practical purposes, are newly opened to U.S. companies, cannot be implemented if our government continues "stop and go" policies. "Stop and go" was our government's policy until very recent years and the result in terms of market share has been meager.

Impact of denial of MFN tariff treatment.—While the adverse effects on U.S capital goods producers from the withholding of Export-Import Bank assistance are clearer than those which would result from the withholding of MFN status, one should not underestimate the importance of the latter with respect to the growth of U.S.-Eastern European trade both for the near and long term. The interest of the Soviet Union and other East European countries in MFN status is impressed continuously upon U.S. businessmen by state trading officials in those countries. For the United States to remove the prospect of MFN tariff treatment—after agreeing to accord this status to the Soviet Union and indicating willingness to extend it to Romania—probably would result in some type of retaliation against U.S. suppliers. For the longer term, especially in view of the tendency of the East European countries to maintain a trade balance with each of their Western trading partners, the prospects for increased two-way trade are not good in the absence of the extension of MFN tariff treatment.

Proposals for individual "national interest" determinations by the President or the Congress

The Bank's operations recently were interrupted for a period following an opinion by the Comptroller General, provided in response to a request from a member of the Senate, to the effect that the Export-Import Bank Act requires that the President make a determination that each individual transaction with a Communist country is in the national interest. The Bank's activities were resumed when the Attorney General found, in a March 21 opinion, that the President and the Bank acted lawfully in making and following determinations on a country-by-country basis.

We have noted that there is at least some congressional disposition to amend the Export-Import Bank Act to require that the President make a national interest determination for *each* transaction and that a proposal has been introduced in the House which would require that the Bank not participate in any transaction with a Communist country until the Congress, through adoption of a concurrent resolution, determines that the transaction is in the national interest. We offer the following comments on these proposals:

> A requirement that the President make a determination for each transaction is not necessary since the Bank is part of the Executive Branch and operates under the President's guidance. As we are sure the members of this Subcommittee are aware, the Bank's financing policies are established and continuously reviewed by the National Advisory Council on International Monetary and Financial Policies (NAC), an interagency group consisting of the Secretaries of the Treasury (Chairman), Commerce, and State, the Chairman of the Export-Import Bank, and the Chairman of the Federal Reserve Board. The NAC's oversight includes not only review of the Bank's overall policies with respect to interest rate, maturities, etc., but also review of specific transactions involving large dollar amounts or specific projects or countries of unusual sensitivity. We cannot believe that a requirement for an individual national security determination by the President would have changed the outcome in any instance. Such a requirement would have entailed only additional paperwork and probably delay in approval of the transaction.
>
> The handling of individual national security determinations—whether by the President or the Congress—would result in a much greater volume of paperwork than the discussion we have seen would suggest. While there have been only a few, relatively large transactions financed by the Bank in the Soviet Union, the Bank has participated in hundreds of transactions with Yugoslavia, Poland and Romania, mostly through its commercial bank guarantee program and its support of the Foreign Credit Insurance Association (FCIA).
>
> While a requirement for a presidential determination on each transaction would involve substantial, unneeded paperwork and perhaps costly delay, we cannot conceive how the Congress—already overloaded with matters of much greater import—could give the attention required to make sound judgments on these hundreds of transactions. For a meaningful evaluation of these proposed transactions, the Congress would need to have a voluminous

amount of information, including information supplied in confidence to the Bank by the borrower and/or U.S. exporter. Just as importantly, the delay which such a congressional review would entail would, in nearly all cases, simply not be tolerable under international competitive conditions today.

The Bank has over the years shown a high degree of professional competence in evaluating projects, has performed well—too well, some companies would argue—as a "prudent banker" in terms of minimizing losses, and should be entrusted with carrying out the broad policy guidelines set forth for it by the Congress and the Administration.

The Bank and the unified budget

We have noted that the proposed "Congressional Budget Act of 1974" as passed by the Senate would remove the present exclusion from the U.S. Budget of the Export-Import Bank and certain other financing agencies. While we understand and applaud the motivation of the Congress in revamping its budget review procedures, we wish to reiterate the views we offered in 1971 when the Congress elected to remove the Bank from the Budget.

The Bank must have the necessary operating flexibility to enable it to make commitments to prospective borrowers on transactions for which disbursements must be made years into the future. From the point of view of our membership, the improvement in the Bank's advance commitment procedure has been one of the most important additions to the Bank's program in recent years and one that we had urged for years upon a succession of Bank administrations. Credit is an integral part of the sales package on transactions abroad, particularly the larger transactions, and this Bank program has been of great assistance to exporters by enabling them to include a firm financing offer as a part of their sales proposal.

Unless there is some recognition in the budgetary process of the unique aspects of the Bank's operations, we are concerned that the Bank may not be able to plan and act aggressively enough when its operations may be contracted in a given year (or years) to fit overall government strategy as to the proper budget posture. In a year when an Administration may consider a posture of budget restraint in order, our balance-of-trade position may call for an aggressive posture by the Bank. The Bank is operating in the international marketplace where developments are beyond our unilateral control and where the Bank must have flexibility to make rather swift changes in policy to keep U.S. exporters competitive. Other countries are pursuing export business aggressively and most of our major competitors go further than we in supporting exports by isolating export financing from domestic monetary policy through a rediscount system or other techniques, which enable them to provide financing in adequate amounts at interest rates below those prevailing domestically.

It would appear to us that there are adequate controls on the Bank's activities through the Office of Management and Budget and the appropriations committees of the Congress. In this connection, we think it is appropriate to note that, in a very important sense, the Bank is not a drain on the Budget. On the contrary, it pays an annual dividend of $50 million to the Treasury.

COMMENTS CONCERNING PROPOSALS TO AMEND THE EXPORT ADMINISTRATION ACT

The major amendments proposed by the Administration to the Export Administration Act would:

Add new clauses to the Act's Declaration of Policy stating that it is the policy of the United States to (1) use export controls "to the extent appropriate to retaliate against a nation or group of nations which have unreasonably restricted United States access to their supply of a particular commodity" and (2) deal with world shortages of particular commodities, wherever feasible, through international cooperation with major supplier and consumer nations rather than by unilateral action; and

Require firms entering into agreements with Communist countries (other than Yugoslavia) which are likely to result in exports by the U.S. firm or its foreign affiliates of U.S.-origin technical data which is not generally available to report the details of the transaction to the Secretary of Commerce within 15 days after entering into such an agreement.

In addition, a number of bills have been introduced in both Houses of Congress which would require either that the criteria for imposition of "short supply" controls be eased or that controls be imposed on specific commodities which are considered to be in short supply in the United States. Further, other bills

have been introduced which would provide the President with an array of powers to retaliate against foreign countries which restrict their exports to the United States. In addition, as we mentioned at the outset, there is a disposition in certain agencies in the Executive Branch—the Federal Energy Office and the Cost-of-Living Council—to restrain exports.

Short supply controls and export restraints

General.—Before offering suggestions concerning changes in the Administration's proposed amendments to the Export Administration Act, we offer the following general comments concerning short supply export controls and/or restraints such as the withholding of Export-Import Bank financing:

> As we indicated earlier in this statement, we believe it would be unfortunate if an overreaction to current domestic shortages (or the Arab oil boycott) should result in broad restrictions which could hamper exports in the long run.
>
> Export restraints would have an adverse impact on established supplier-customer relations and affect our balance of trade for this year and later years. For most companies, a successful international marketing program represents years of effort and substantial cost. For heavy equipment companies, this is particularly the case because some substantial projects require years of preparation and negotiation. Further, the failure to win a particular sale can adversely affect sales for years to come because of the loss of follow-on orders for expansion and replacement. In this connection, it should be noted that very few U.S. companies—in the energy or other fields—are without strong foreign competition. Further, many of the foreign customers for energy-related equipment are government-owned public utilities, petroleum companies, mines, etc. In these cases, interference with the booking of export business or governmental action which makes it difficult if not impossible for the U.S. supplier to make the best possible offer—including attractive export financing—may have an adverse impact on U.S. international commercial relations and could create long-term difficulties for the U.S. supplier (and perhaps other U.S. suppliers) with the purchasing entity *and* other branches of the local government.
>
> It seems inappropriate, except in terms of domestic emergencies, to restrain exports of energy-related equipment or components thereof and certain raw materials in view of the more desperate energy situation in many of the countries, particularly those that are less developed, which need and wish to order such equipment. In a broader sense, we believe that it is generally inappropriate for the United States and other industrial countries to restrain exports of products at a time when our government and other governments seem to be moving toward at least a code of good behavior on the part of supplying nations. We cannot have it both ways.

Recommendations.—We endorse the view recently expressed by Ambassador William D. Eberle and Secretary of Commerce Frederick B. Dent that the United States and other industrial countries should, to the extent possible, attempt to solve the problem of access to needed raw materials through multilateral action. (There are very few, if any, cases where unilateral U.S. action with respect to restrictions on exports would be effective in achieving this objective.) In recent testimony before the Senate Finance Committee on the proposed "Trade Reform Act" Ambassador Eberle discussed the Administration's intention to cover the matter of access to commodities in the forthcoming round of negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT) and his testimony covered in detail the various provisions of that bill, including retaliatory provisions, which could be used in attempting to secure the United States access to foreign sources of raw materials and other products.[3] It is noteworthy in this connection that in the proposed Trade Reform Act the authority of the President to modify *import* barriers is circumscribed in terms of specific criteria, congressional review, time limits, or requirements for public hearings. Since U.S. industries also may be adversely affected by controls on exports, we believe that comparable requirements and procedures should be set forth in the Export Administration Act with respect to restrictions on *exports* to insure that economic considerations are paramount in their administration. Obviously, it would not be feasible to hold public hearings prior to the imposition of controls on exports since such an action could result in a rush by firms to export before

[3] See Testimony by Ambassador William D. Eberle, U.S. Special Representative for Trade Negotiations, before the Senate Finance Committee on H.R. 10710, the "Trade Reform Act."

restrictions are imposed. However, the bill should require that injured companies have a right to present their objections after the imposition of controls. There also should be some independent review and oversight regarding the propriety of such controls and this should be exercised by some organization outside of the Executive Branch such as the Tariff Commission which has considerable economic and foreign trade expertise.

National security export controls

In our opinion adequate justification has not been presented to the Congress for the authority requested by the Secretary of Commerce to require any person (or firm) entering into an agreement which is likely to result in a transfer of U.S.-origin technical data which is not generally available to "report the details of the transaction to the Secretary of Commerce *and provide him with copies of documents pertaining to such transaction* within fifteen days from entering into such . . . written understanding" (emphasis supplied). The justification submitted with the proposed legislation refers only to the technical cooperation agreements entered into between the Soviet Government and U.S. companies. These agreements are normally rather general in nature and merely state the parties' intent to work out exchanges of technology, subject to subsequent agreement on the commercial aspects of specific exchanges. The conclusion of such agreements is frequently mentioned in the press, and we believe that companies would not object to advising the Department of Commerce as to the types of technology which might be transferred so that the department could initiate the frequently-lengthy review, often involving a number of government agencies, of possible national security implications of such transfers. However, it is our understanding that these agreements frequently are not specific enough in terms of types of technology to be transferred to be of interest to the Department of Commerce. To reduce the amount of paperwork for companies and the Department of Commerce, we believe the language should be revised to call for reporting to the Department of Commerce only those agreements in which the U.S. party has agreed to undertake transfers of specific kinds of technology.

We have a more fundamental objection to the Secretary's request. Agreements involving East European countries—notably Poland, Hungary and Romania, but also the Soviet Union and other countries in the area—increasingly are of a very different nature than the technological cooperation agreements referred to by the Secretary in his justification. These include conventional licensing agreements, joint ventures and other forms of joint undertakings, the details of which (licensing fees, arrangements for profit remittances, etc.) companies regard as extremely confidential and generally are unwilling to report outside of the company. Since the legal responsibility of the Department of Commerce is only to control exports of U.S.-origin technology (and products), we do not believe the Department needs to have "copies of documents" pertaining to such agreements. It appears to us that the Department's needs would be met if it is informed of agreements in which U.S. companies undertake to provide to Communist countries specific types of U.S. technology not generally available. Actual exports of such technology require, of course, a license from the Department of Commerce.

CONCLUSION

In conclusion, let us recapitulate the Institute's views on the legislation before the Subcommittee:

1. In part because of the recent marked improvement in our balance of trade and in part because of shortages and inflation, a negative attitude toward exports has developed. Because of the increased costs of imports of energy and raw materials, many economists are projecting that the United States will return to a deficit balance of trade position this year. Thus, we could pay a heavy price for any current or future exports which are lost as a result of export restrictions or the failure to provide export financing. We recognize that there may be some instances where a domestic shortage is having such a crippling effect on the U.S. economy that the item involved is needed domestically on almost an emergency basis. However, an overreaction to domestic shortages, most of which will be of a temporary nature and are being and will be relieved to some extent at least by price decontrol, should not be permitted to result in broad restrictions which could hamper exports in the long run.

2. We support the extension and expansion of the Export-Import Bank's operating authority. While the competitive position of U.S. companies has

improved as a result of the two devaluations of the dollar and the currency realignments, we do not foresee any diminution in the need for an effective program of export financing assistance to U.S. exporters which matches the assistance provided to exporters in competitor nations. It appears to us that major projects in energy, raw materials and other fields, running into tens of millions of dollars and higher and requiring maturities well beyond five years, will become an even more important part of the export scene.

We oppose further broad restrictions on Bank financing of transactions in Communist countries, including proposals to require individual "national interest" determinations with respect to such transactions by the President or the Congress. With respect to the capital goods and allied equipment industries, withdrawal of Export-Import Bank participation in sales to Eastern Europe would not result in the denial of any significant number of products important to the Soviet (and other East European) economies but would result in the replacement of U.S. suppliers to those countries by suppliers from the industrial countries of Western Europe and Japan.

We oppose proposals to require "national interest" determinations by the President or the Congress for each Bank-supported transaction in Communist countries. Such a formal determination by the President is unnecessary since the Bank is part of the Executive Branch, operates under the President's guidance, and is subject to continuous oversight by an interagency group, the National Advisory Committee on International Monetary and Financial Policies. Since hundreds of transactions annually are involved, individual determinations—whether by the President or the Congress—would result in a great amount of paperwork and probably costly delay. The Bank has over the years shown a high degree of professional competence in evaluating projects, has performed well as a "prudent banker" in terms of minimizing losses, and should be entrusted with carrying out the broad policy guidelines established by the Congress and the Administration.

While we sympathize with the objectives of the Senate in removing the Bank's present exclusion from the Budget in its version of the proposed "Congressional Budget Act of 1974," we are concerned that, if its activities are included in the Budget, the Bank may not be able to plan and act aggressively enough when its operations may be contracted in a given year (or years) to fit overall government strategy as to the proper budget posture. The Bank must have the necessary operating flexibility to enable it to make commitments to prospective borrowers on transactions for which disbursement must be made years into the future.

3. Since export restrictions could have an adverse impact on established supplier-customer relations and affect our balance of trade for this year and later years, we urge that "short supply" controls under the Export Administration Act be imposed on a very selective and minimum basis. Export controls which might be imposed to secure United States access to foreign sources of raw materials and other products should be used in concert with those or other industrialized nations since there are few, if any, cases where unilateral U.S. action would be effective in achieving this objective. We recommend that changes be made in the law to accord exporters who may be damaged by *export* restrictions safeguards comparable to those provided to firms which may be adversely affected by modification of *import* restrictions. With respect to the Department of Commerce's proposed amendment to the "national security" provisions of the Export Administration Act, we oppose the requirements—as presently stated—that firms concluding agreements with Communist countries which are likely to result in a transfer of U.S.-origin technical data not generally available must submit to the Department of Commerce copies of documents pertaining to such agreements. Companies would not object to giving the Department early notice when they have concluded an agreement which will probably result in a transfer of specific types of technology. However, a requirement that firms provide the full text of commercial agreements, the details of which (licensing fees, arrangements for profit remittances, etc.) are extremely confidential, appears to go beyond the needs of the Department of Commerce in exercising its responsibility to control exports and re-exports of U.S.-origin technology and products.

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We appreciate the opportunity to appear before this Subcommittee and request that the full text of this statement be included in the record of the hearings.

TABLE I.—IMPORTS AND EXPORTS AND IMPORT-EXPORT RATIOS [1] FOR MAJOR MACHINERY CATEGORIES 1961–73 (JANUARY–SEPTEMBER)

[Imports and exports in millions of dollars; ratios in percent]

	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	January to September 1973
Machinery total:													
Imports	629	738	834	1,089	1,486	2,202	2,563	3,035	3,565	4,271	4,742	6,245	6,009
Exports	4,694	5,080	5,312	6,121	6,589	7,297	7,083	8,309	9,519	11,015	11,168	12,735	11,966
Ratio	13.4	14.5	15.7	17.8	22.6	30.2	32.8	36.5	37.4	38.8	42.5	49.0	50.2
Engine turbine and parts:													
Imports	35	28	49	136	195	331	383	517	603	782	957	1,242	1,101
Exports	558	694	660	666	829	932	1,021	1,123	1,213	1,358	1,523	1,798	1,585
Ratio	6.3	4.0	7.4	20.4	23.5	35.5	37.5	46.0	49.7	58.0	62.8	69.1	69.5
Agriculture machines and tractors:													
Imports	115	152	172	195	249	325	341	322	345	348	360	497	490
Exports	541	558	644	826	860	860	843	873	917	931	875	1,075	1,084
Ratio	21.3	27.2	26.7	23.6	29.0	37.8	40.5	36.9	37.6	37.3	41.1	46.2	45.2
Office machines:													
Imports	75	85	98	104	136	191	225	256	372	505	566	700	667
Exports	310	324	362	434	471	557	707	747	1,051	1,547	1,521	1,623	1,481
Ratio	24.2	26.2	27.1	24.0	28.9	34.3	31.8	34.3	35.4	32.6	37.2	43.1	45.0
Metalworking machinery:													
Imports	34	41	48	40	63	135	203	204	183	164	107	140	132
Exports	391	435	347	408	332	338	339	334	343	396	405	410	336
Ratio	8.7	9.4	13.8	9.8	19.0	39.9	59.9	61.1	53.4	41.4	26.4	34.1	39.3

Textile and leather machinery:													
Imports	82	94	93	127	157	221	237	308	305	361	501	638	477
Exports	210	200	190	228	207	227	206	207	239	273	253	272	259
Ratio	39.0	47.0	48.9	55.7	75.8	97.4	115.0	148.8	127.6	132.2	198.0	234.6	184.2
Other nonelectrical machinery:													
Imports	114	140	175	269	360	474	574	673	814	943	1,012	1,324	1,292
Exports	1,732	1,876	2,006	2,298	2,573	2,864	3,065	3,276	3,697	4,181	4,202	4,693	4,354
Ratio	6.6	7.5	8.7	11.7	14.0	16.6	18.7	20.5	22.0	22.5	24.1	28.2	29.7
Power machinery and switchgear:													
Imports	28	25	22	41	67	105	133	168	196	247	263	356	331
Exports	255	264	326	356	472	488	510	531	562	611	679	787	778
Ratio	11.0	9.5	6.7	11.5	14.2	21.5	26.1	31.6	34.9	40.4	38.7	45.2	42.5
Other electrical apparatus:													
Imports	146	174	177	177	259	419	467	587	476	922	976	1,348	1,519
Exports	696	730	776	905	843	1,031	1,111	1,218	1,497	1,728	1,710	2,077	2,089
Ratio	21.0	23.8	22.8	19.6	30.7	40.6	42.0	48.2	49.8	53.4	57.1	64.9	72.7
Machinery-nonelectrical, total:													
Imports	455	540	635	871	1,160	1,677	1,963	2,280	2,622	3,103	3,503	4,541	4,159
Exports	3,743	4,087	4,209	4,860	5,274	5,778	6,181	6,560	7,460	8,686	8,779	9,871	9,099
Ratio	12.2	13.2	15.1	17.9	22.0	29.0	31.8	34.8	35.1	35.7	39.9	46.0	45.7
Electrical apparatus, total:													
Imports	174	199	199	218	326	524	600	755	942	1,169	1,239	1,704	1,850
Exports	951	994	1,102	1,261	1,315	1,519	1,621	1,749	2,059	2,339	2,389	2,864	2,867
Ratio	18.3	20.0	18.0	17.3	24.8	34.5	37.0	43.2	45.8	50.0	51.9	59.5	64.5

[1] Imports as a percentage of exports.

Note: Other electrical apparatus includes domestic electrical equipment. Agricultural machines and tractors includes all types of tractors in addition to farm tractors.

Source: U.S. Department of Commerce.

TABLE II.—EXPORTS OF MACHINERY AND TRANSPORT EQUIPMENT TO EASTERN EUROPE BY THE UNITED STATES AND OTHER OECD MEMBERS, 1968 AND 1972

[Millions of dollars]

Importer/exporter	United States 1968	United States 1972	West Germany 1968	West Germany 1972	United Kingdom 1968	United Kingdom 1972	France 1968	France 1972
Eastern Europe:[1]								
Machinery, other than electric[2]	$24.7	$86.6	$359.9	$813.8	$248.0	$215.4	$209.9	$226.0
Electrical machinery and apparatus[3]	4.4	11.4	59.7	127.6	16.2	36.5	29.3	61.3
Transport equipment[4]	.1	.1	2.6	6.0	8.5	3.1	1.4	82.7
Total	29.2	98.1	422.2	947.4	272.7	255.0	240.6	370.0
Soviet Union:								
Machinery, other than electric[2]	11.9	53.5	36.1	326.7	121.2	79.0	4.2	88.9
Electrical machinery and apparatus[3]	2.4	6.9	8.2	34.0	6.1	13.4		24.0
Transport equipment[4]	.1	.1	.6	1.0	.3	.2	1.5	.1
Total	14.4	60.5	44.9	361.7	127.6	92.6	5.7	112.8

TABLE II.—EXPORTS OF MACHINERY AND TRANSPORT EQUIPMENT TO EASTERN EUROPE BY THE UNITED STATES AND OTHER OECD MEMBERS, 1968 AND 1972—Continued

Importer/exporter	Italy 1968	Italy 1972	Japan 1968	Japan 1972	Other OECD countries[5] 1968	Other OECD countries[5] 1972[6]	Total 1968	Total 1972
Eastern Europe:[1]								
Machinery, other than electric[2]	$154.2	$239.6	$43.7	$216.5	$297.6	$116.3	$1,338	$1,914.2
Electrical machinery and apparatus[3]	26.6	33.7	12.8	37.3	70.0	69.4	219	377.2
Transport equipment[4]	5.4	.5	11.0	14.6	115.0	134.2	144	241.2
Total	186.2	273.8	67.5	268.4	482.6	319.9	1,701	2,532.6
Soviet Union:								
Machinery, other than electric[2]	3.8	109.4	36.1	138.0	379.7	38.5	593	834.0
Electrical machinery and apparatus[3]	.9	12.4	8.2	20.6	42.2	10.7	68	122.0
Transport equipment[4]			.6	22.8	91.9	36.4	95	60.4
Total	4.7	121.8	44.9	181.4	513.8	85.6	756	1,016.4

[1] Soviet Union, East Germany, Poland, Czechoslovakia, Hungary, Romania, Bulgaria, and Albania.
[2] SITC Division 71.
[3] SITC Division 72, less subdivision 724 (telecommunications apparatus) and subdivision 725 (domestic electrical equipment) which include primarily consumer durable goods.
[4] SITC Division 73, less subdivision 732 (road motor vehicles) and subdivision 733 (road vehicles other than motor vehicles) which include primarily consumer durable goods.
[5] Belgium-Luxembourg, Netherlands, Norway, Sweden, Denmark, Finland, Iceland, Austria, Switzerland, Portugal, Ireland, Spain, Greece, Turkey, Canada, and Australia.
[6] Annual totals extrapolated on basis of data compiled for 1st 6 months of 1972.

Source: Organization for Economic Cooperation and Development.

TABLE III.—SHARE OF MACHINERY AND TRANSPORT EQUIPMENT EXPORTS TO EASTERN EUROPE OF THE UNITED STATES AND OTHER OECD MEMBERS, 1968 AND 1972

[Percentages]

Importer/exporter	United States 1968	United States 1972	West Germany 1968	West Germany 1972	United Kingdom 1968	United Kingdom 1972	France 1968	France 1972
Eastern Europe	2	4	25	37	16	10	14	15
Soviet Union	2	6	6	36	17	9	1	11

TABLE III.—SHARE OF MACHINERY AND TRANSPORT EQUIPMENT EXPORTS TO EASTERN EUROPE OF THE UNITED STATES AND OTHER OECD MEMBERS, 1968 AND 1972—Continued

Importer/exporter	Italy		Japan		Other OECD countries		Total [1]	
	1968	1972	1968	1972	1968	1972	1968	1972
Eastern Europe	11	11	4	11	28	13	100	100
Soviet Union	1	12	6	18	68	8	100	100

[1] Detail may not add to totals due to rounding.

Mr. ASHLEY. Thank you very much, Mr. Derr. It is a good statement. We will get back to you in a few minutes.

Our next witness is James Henry Giffen, president of the Armco International, Inc., a foreign trade subsidiary of the Armco Steel Corp. of Dayton, Ohio.

Mr. Giffen is author of the book "The Legal Aspects of Trade with the Soviet Union" which was written as a text for law schools, business schools, and American firms. Published in 1969, it is now in its third printing. Mr. Giffen has written numerous articles on East-West trade, and has previously testified before the Congress.

We welcome you this morning, Mr. Giffen, and we would ask you to proceed as you wish.

STATEMENT OF JAMES HENRY GIFFEN, PRESIDENT, ARMCO INTERNATIONAL, INC. (ARMCO STEEL CORP.); ACCOMPANIED BY JOHN C. GRIFFIN, GENERAL ATTORNEY AND SECRETARY

Mr. GIFFEN. Thank you very much, Mr. Chairman.

Mr. Chairman, members of the subcommittee, my name is James H. Giffen. I am president of Armco International, Inc., the foreign trading subsidiary of Armco Steel Corp. With me this morning is John C. Griffin, general attorney and secretary.

Mr. Chairman, I appreciate this opportunity to testify on the role of the Export-Import Bank and export controls in U.S. international economic policy.

Armco Steel Corp. is in favor of, and supports the policies as set forth in the Export Administration Act of 1969, as amended, and the Export-Import Bank Act of 1945, as amended. We are in favor of, and support a policy which encourages trade with all countries with which the United States has diplomatic or trading relations including the U.S.S.R. We believe it to be in the best interests of the United States to promote world trade, especially at a time when we are facing shortages of basic raw materials and sources of energy supply. In order to promote trade we think it is essential that the Export-Import Bank of the United States provide credits and other financial assistance at rates, and on terms and conditions which are competitive with the Government-supported credits and financial assistance available to competitors of U.S. exporters.

Mr. Chairman, Armco Steel Corp.'s policies and activities with respect to trade with the planned economy countries in general, and with the Soviet Union in particular, has been in a state of transition

since the passage of the Export Administration Act of 1969. Prior to 1969 only a handful of American companies were trading directly with the U.S.S.R., and in that respect Armco's activities were also limited. However, once the Congress had declared that it was the policy of the United States to encourage trade with all countries with which it had diplomatic or trading relations, which include the Soviet Union, as stated in section 3(1) of the Export Administration Act of 1969, we began to re-examine our policies and reassess our position with respect to increased trade with the U.S.S.R.

After noting the signing of the "Basic Principle of Relations Between the United States of America and the Union of Soviet Socialist Republics" on May 29, 1972, the signing of the "Agreement on Trade Between the United States of America and the Union of Soviet Socialist Republics" on October 18, 1972, and after making a preliminary assessment of the economic opportunities potentially available in the Soviet market, Armco Steel Corp. adopted a broad policy decision to establish long term, continuing and substantial mutually advantageous economic relations with the U.S.S.R. Between 1972 and the present time, we have, with the support and encouragement of the Department of Commerce and other appropriate agencies of the U.S. Government, created marketing plans for the U.S.S.R., established initial contacts with appropriate U.S.S.R. officials and defined projects which might be of mutual interest.

I want to make clear, Mr. Chairman, that while Armco is in favor of an expansion of economic relations with the U.S.S.R., we will not consider, nor will we enter into any arrangement with any agency or organization from any planned economy country or any other country of the world for that matter, which does not produce an economic benefit for Armco and the United States. We are talking about trade, Mr. Chairman, not aid.

In short, we agree with the policy of expanded trade with the planned economy countries and we are in favor of legislation which can establish the framework within which such an expansion can take place.

The Export Administration Act of 1969 adequately declares the policy of the United States with respect to the regulation of exports. Its passage in 1969 was significant because for the first time since the Second World War, Congress declared that while it would continue to be the policy of the United States to restrict exports which would make a significant contribution to the military potential of any country which would prove detrimental to the national security of the United States, it would also be the policy of the United States to encourage trade with countries with which it had diplomatic or trading relations. For a number of years prior to the passage of the act, many U.S. corporations struggled in vain to obtain a clarification of the position of the Government with respect to trade with planned economy countries, such as the Soviet Union. Most American companies, I think, felt that without a clear-cut, definitive statement by the Congress they had to assume the Government was not in favor of encouraging such trade. Even after the act was passed, many American companies waited for specific and positive results in the form of reduced regulations and controls over exports to the planned economy countries. Subsequent decontrol measures and regulations by the De-

partment of Commerce have since strengthened the declared policy of the act. We are substantially satisfied with both the policy and administration of the act to date and endorse the extension of it for an additional period.

We would not, however, endorse the addition of section 7(c) of the act as proposed. The proposed section stated:

(c) Any person who enters into a contract, protocol agreement, or other written understanding, which contemplates, or is likely to result in, the exportation by a U.S. person or one of its affiliates to a Communist country or area, of U.S. origin technical data which is not generally available, shall report the details of the transaction to the Secretary of Commerce and provide him with copies of documents pertaining to such transaction within 15 days from entering into such contract, protocol agreement, or other written understanding.

Our objection, Mr. Chairman, centers around the use of the following language, "contemplates, or is likely to result in."

This language is so very vague that it has no meaning. We are forced to ask what kind of activity is likely to lead to further business? And who will decide? Is it a telephone call, an initial exploratory meeting, a letter of intent, or just what? It is conceivable that every piece of business correspondence ever generated at any point in time with respect to potential export activity would be required by the Department of Commerce.

Certainly this infringement on the privacy of competitive economic enterprises is not the intent of the amendment. Beyond infringement, it places an unnecessary administrative burden on U.S. exporters. Finally, it does not, for all that, help the Department of Commerce control exports. If anything, the volume of paper generated would lead to confusion and be counterproductive.

The export control regulations are thoroughly specific with respect to the actual transfer of technology and products and must and should be complied with before any such transfer takes place. We believe that the regulations promulgated pursuant to the Export Administration Act of 1969 with respect to documentation are wholly adequate.

Having made the determination and declaration that it is in the best interests of the United States to encourage an expansion of trade, I think everyone would agree that U.S. exporters should be encouraged to be competitive and to secure the maximum volume of business possible commensurate with the opportunities which are available.

At the same time, we feel that the U.S. Government should do everything reasonable and necessary to insure that Government-sponsored economic assistance is available to the American exporter. Most of the major exporting countries of the world today provide Government-sponsored guarantees, insurance and extensions of credit in order to encourage the expansion of exports. The provision of similar extensions of credit and other financial assistance to the American exporter by the Export-Import Bank helps to make the American exporter competitive.

Quite frankly, Mr. Chairman, without the help of the Export-Import Bank, Armco Steel Corp. would not have been able to conclude a number of export transactions with a variety of countries in the world.

For example, in the last 3 years Armco's Machinery and Equipment Division has concluded transactions worth over $85 million which have

required Export-Import Bank financing. Projects worth approximately $80 million have been approved by the Export-Import Bank and another $4 or $5 million are pending. One specific example involved the sale of drilling equipment in 1972 to the Myanma Oil Co. of Burma. The equipment exported from the United States was valued at $8 million. The Export-Import Bank and a major American bank supplied 70 percent of the financing for the project and we are confident that the transaction would not have been possible without the support and assistance of the Export-Import Bank.

It follows that if it is the declared policy of the United States to encourage an expansion of trade with the Soviet Union, the Export-Import Bank should be directed to assist U.S. exporters in the expansion of this trade.

Mr. Chairman, all foreign trade of the Soviet Union is conducted by the Ministry of Foreign Trade of the U.S.S.R. through a specialized set of quasi-public trading corporations, and when a foreign businessman sits down to negotiate a contract with officials from these foreign trade organizations, he is constantly reminded that there are three elements which are important—price, terms, and counterpurchase. It is difficult enough for an American exporter to be competitive with exporters from the countries of Japan, France, Italy, Great Britain, and West Germany on a price basis and it is practically impossible for the American exporter to be competitive on terms without Export-Import Bank financing.

The five major Western exporting countries competing with the United States realize the importance of the offering of Government-sponsored financing to encourage exports to the planned economy countries. For example, we understand that our five major competitors have offered 16 times more financing to the U.S.S.R. than the Export-Import Bank has offered, and the terms are certainly attractive.

Recently, France has offered over $1.5 billion worth of credit to the Soviets at rates equal to 6.05 percent for transactions in excess of $3 to $3½ million, and 6.25 percent for all other transactions. Italy has offered over $350 million worth of credit to the U.S.S.R. at rates equal to 6.25 percent.

Great Britain, through its ECDG program, has not limited the amount of credits available, and has offered credits ranging from 6.05 percent on large transactions to 6.25 percent on other transactions. Japan has offered over $700 million worth of credit to the Soviets at rates averaging approximately 6 percent and is now negotiating additional quantities of credits, and as a matter of fact, Mr. Chairman, I understand that the Japanese announced just yesterday that they have granted over $1 billion of credits to the Soviets at a rate of 6.375 percent.

West Germany has offered approximately $750 million worth of credits through AKA and Hermes at rates ranging from 6 to 6½ percent.

The Export-Import Bank offers a flat rate of 7 percent plus charges for up to 45 percent of a proposed transaction with the U.S.S.R. At least 10 percent is required as a downpayment and the remaining 45 percent must be obtained from the U.S. commericial banks at existing rates. The net effect is that the combined Export-Import Bank and

private bank rate can equal approximately 8 percent or more. In addition, it is my understanding that the Bank will not provide credits to the Soviets in excess of $500 million unless and until further information is provided. Although the combined Export-Import Bank interest rate is not strictly competitive at the present time with the interest rates of the five major competitors of the United States, I do not think the difference is so great so as to be noncompetitive. As a matter of fact, one Deputy Minister of the Ministry of Foreign Trade of the U.S.S.R. has indicated that the U.S.S.R. could live with the present American interest rate structure.

However, I am not confident as to the volume of credit. Several projects the Soviets are presently considering, projects in which American companies have expressed an interest, would require financing in excess of $500 million. If the Soviets feel that such credits will not be available from the United States, American companies may never be given the opportunity to consider participation in such projects. For example, we were interested in considering the possibility of participating in a project known as the Kursk Iron Ore Beneficiation and Steel Complex. The proposed complex would be built in the Soviet Union and would produce approximately 7 million tons of iron oxide pellets, 5 million tons of direct reduced pellets, and 3.8 million tons of steel. A West German consortium recently announced that it had signed an agreement for the project, and we were informed that the United States was never really considered for the project because of its size and the volume of financing which would be required.

Mr. Chairman, I submit to you that we lose in two ways by not participating in such projects. One, we lose the export sale of the machinery, equipment, and technology. Two, we lose the opportunity of securing long-term contracts for the supply of certain needed raw materials. In this particular case, the U.S.S.R. was willing to sell up to 2 million tons per year of direct reduced pelletized iron, a material roughly equivalent to pig iron or scrap. Armco Steel Corp. is finding it increasingly more difficult to obtain these products.

With respect to the several bills and resolutions which have been introduced in the Congress concerning the Export-Import Bank, we are in favor of, and support the basic philosophy and substance of H.R. 13838. We believe the Export-Import Bank should be authorized to exercise its function for an additional 4-year period and that its total aggregate of loans, guarantees, and insurance be increased. We are not in favor of the suggested restrictions on the Bank's activities and do not support House Resolution 774, H.R. 14257, or H.R. 13730.

We cannot support House Resolution 774, Mr. Chairman, because we are of the opinion that a suspension of the activities of the Export-Import Bank to planned economies would cause delays in the negotiation process which would work in geometric progressions. The foreign trade of planned economy countries is conducted by a highly diversified group of specialized ministries, institutes, committees, and foreign trade organizations. It has been our experience that it is much easier to slow these organizations down than it is to get them moving forward toward conclusion of a transaction.

We cannot support H.R. 14257 because we believe that the determination of whether or not a credit should be granted on each particular

transaction is basically an executive function and not one that can be effectively handled by the legislature. In addition, we question whether attempting to use the leverage of trade to affect the internal policies of a foreign government is, or ever has been, productive.

Finally, we cannot support H.R. 13730. If the purpose of this bill is to prevent the export of energy research, development of exploration technology and equipment to the U.S.S.R., we believe that the proper controlling legislation are the regulations promulgated under the authority of the Export Administration Act of 1969 and the regulations are clear on this particular point. If, however, the only purpose of this bill is to prevent the Export-Import Bank from financially assisting American businessmen interested in participating in U.S.S.R. energy projects, we do not agree with the basic philosophy. As the U.S. economy expands into the 1980's and as our energy requirements increase and our energy sources decrease, we feel the United States should consider all possible sources of energy supply, neither relying on, nor ignoring any one single source.

In conclusion, Mr. Chairman, as I have previously stated, we are in favor of, and support a policy which encourages trade with all countries with which we have diplomatic or trading relations including the U.S.S.R. We think it essential that the Export-Import Bank of the United States provides credits and other financial assistance which are competitive with the Government-supported credits and other financial assistance programs available to competitors of U.S. exporters. With the exception of the objectionable "contemplates or is likely to result in" language included in section 7(c), we recommend that the Export Administration Act of 1969, as amended, and the Export-Import Bank Act of 1945, as amended, be extended.

Thank you.

[Mr. Giffen's prepared statement follows:]

Prepared Statement of James Henry Giffen, President, Armco International, Inc. (Armco Steel Corp.)

INTRODUCTION

Mr. Chairman and members of the subcommittee, my name is James H. Giffen. I am President of Armco International, Inc., the foreign trading subsidiary of Armco Steel Corporation. With me this morning is Mr. John C. Griffin, General Attorney and Secretary of Armco Steel Corporation.

Mr. Chairman, I appreciate this opportunity to testify on the role of the Export-Import Bank and export controls in United States international economic policy.

Armco Steel Corporation is in favor of, and supports the policies as set forth in the Export Administration Act of 1969, as amended, and the Export-Import Bank Act of 1945, as amended. We are in favor of, and support a policy which encourages trade with *all* countries with which the United States has diplomatic or trading relations including the USSR. We believe it to be in the best interests of the United States to promote world trade, especially at a time when we are facing shortages of basic raw materials and sources of energy supply. In order to promote trade we think it is essential that the Export-Import Bank of the United States provide credits and other financial assistance at rates, and on terms and conditions which are competitive with the government-supported credits and financial assistance available to competitors of United States exporters.

TRADE WITH PLANNED ECONOMIES

Mr. Chairman, Armco Steel Corporation's policies and activities with respect to trade with the planned economy countries in general, and with the Soviet

Union in particular, has been in a state of transition since the passage of the Export Administration Act of 1969. Prior to 1969 only a handful of American companies were trading directly with the USSR, and in that respect, Armco's activities were also limited. However, once the Congress had declared that it was the policy of the United States to encourage trade with all countries with which it had diplomatic or trading relations, which include the Soviet Union, as stated in Section 3(1) of the Export Administration Act of 1969, we began to reexamine our policies and reassess our position with respect to increased trade with the USSR. After noting the signing of the "Basic Principle of Relations Between the United States of America and the Union of Soviet Socialist Republics" on May 29, 1972, the signing of the "agreement on Trade Between the United States of America and the Union of Soviet Socialist Republics" on October 18, 1972, and after making a preliminary assessment of the economic opportunities potentially available in the Soviet market, Armco Steel Corporation adopted a broad policy decision to establish long-term, continuing and substantial mutually advantageous economic relations with the USSR. Between 1972 and the present time, we have, with the support and encouragement of the Department of Commerce and other appropriate agencies of the United States government, created marketing plans for the USSR, established initial contacts with appropriate USSR officials and defined projects which might be of mutual interest.

I want to make clear, Mr. Chairman, that while Armco is in favor of an expansion of economic relations with the USSR, we will not consider, nor will we enter into any arrangement with any agency or organization from any planned economy country or any other country of the world for that matter, which does not produce an economic benefit for Armco and the United States. We are talking about trade, Mr. Chairman, not aid.

In short, we agree with the policy of expanded trade with the planned economy countries and we are in favor of legislation which can establish the framework within which such an expansion can take place.

EXPORT ADMINISTRATION ACT OF 1969, AS AMENDED

The Export Administration Act of 1969 adequately declares the policy of the United States with respect to the regulation of exports. Its passage in 1969, was significant because for the first time since the Second World War, Congress declared that while it would continue to be the policy of the United States to restrict exports which would make a significant contribution to the military potential of any country which would prove detrimental to the national security of the United States, it would also be the policy of the United States to encourage trade with countries with which it had diplomatic or trading relations. For a number of years prior to the passage of the Act, many United States corporations struggled in vain to obtain a clarification of the position of the government with respect to trade with planned economy countries such as the Soviet Union. Most American companies, I think, felt that without a clear-cut, definitive statement by the Congress they had to assume the government was not in favor of encouraging such trade. Even after the Act was passed, many American companies waited for specific and positive results in the form of reduced regulations and controls over exports to the planned economy countries. Subsequent de-control measures and regulations by the Department of Commerce have since strengthened the declared policy of the Act. We are substantially satisfied with both the policy and administration of the Act to date and endorse the extension of it for an additional period.

We would not, however, endorse the addition of Section 7(c) of the Act as proposed. The proposed section states:

> (c) Any person who enters into a contract, protocol agreement, or other written understanding, which contemplates, or is likely to result in, the exportation by a U.S. person or one of its affiliates to a Communist country or area, of U.S. origin technical data which is not generally available, shall report the details of the transaction to the Secretary of Commerce and provide him with copies of documents pertaining to such transaction within fifteen days from entering into such contract, protocol agreement, or other written understanding.

Our objection, Mr. Chairman, centers around the use of the following language, "contemplates, or is likely to result in".

(1) This language is so very vague that it has no meaning. We are forced to ask what kind of activity is likely to lead to further business? And who will decide? Is it a telephone call, an initial exploratory meeting, a letter of intent, or just what? It is conceivable that every piece of business correspondence ever generated at any point in time with respect to potential export activity would be required by the Department of Commerce. Certainly this infringement on the privacy of competitive economic enterprises is not the intent of the amendment. Beyond infringement, it places an unnecessary administrative burden on United States exporters. Finally, it does not, for all that, help the Department of Commerce control exports. If anything, the volume of paper generated would lead to confusion and be counterproductive.

(2) The export control regulations are thoroughly specific with respect to the actual transfer of technology and products and must and should be complied with before any such transfer takes place. We believe that the regulations promulgated pursuant to the Export Administration Act of 1969 with respect to documentation are wholly adequate.

THE EXPORT-IMPORT BANK ACT OF 1945, AS AMENDED

Having made the determination and declaration that it is in the best interests of the United States to encourage an expansion of trade I think everyone would agree that United States exporters should be encouraged to be competitive and to secure the maximum volume of business possible commensurate with the opportunities which are available.

At the same time, we feel that the United States government should do everything reasonable and necessary to insure that government-sponsored economic assistance is available to the American exporter. Most of the major exporting countries of the world today provide government-sponsored guarantees, insurance and extensions of credit in order to encourage the expansion of exports. The provision of similar extensions of credit and other financial assistance to the American exporter by the Export-Import Bank helps to make the American exporter competitive.

Quite frankly, Mr. Chairman, without the help of the Export-Import Bank, Armco Steel Corporation would not have been able to conclude a number of export transactions with a variety of countries in the world.

For example, in the last three years Armco's Machinery and Equipment Division has concluded transactions worth over $85 million which have required Export-Import Bank financing. Projects worth approximately $80 million have been approved by the Export-Import Bank and another $4 or $5 million are pending. One specific example involved the sale of drilling equipment in 1972 to the Myanma Oil Company of Burma. The equipment exported from the United States was valued at $8 million. The Export-Import Bank and a major America bank supplied 70% of the financing for the project and we are confident that the transaction would not have been possible without the support and assistance of the Export-Import Bank.

It follows that if it is the declared policy of the United States to encourage an expansion of trade with the Soviet Union, the Export-Import Bank should be directed to assist United States exporters in the expansion of this trade.

Mr. Chairman, all foreign trade of the Soviet Union is conducted by the Ministry of Foreign Trade of the USSR through a specialized set of quasi-public trading corporations, and when a foreign businessman sits down to negotiate a contract with officials from these foreign trade organizations, he is constantly reminded that there are three elements which are important—price, terms and counterpurchase. It is difficult enough for an American exporter to be competitive with exporters from the countries of Japan, France, Italy, Great Britain and West Germany on a price basis and it is practically impossible for the American exporter to be competitive on terms without Export-Import Bank financing.

The five major Western exporting countries competing with the United States realize importance of the offering of government-sponsored financing to encourage exports to the planned economy countries. For example, we understand that our five major competitors have offered sixteen times more financing to the USSR than the Export-Import Bank has offered. And the terms are certainly attractive.

Recently, France has offered over $1.5 billion worth of credit to the Soviets at rates equal to 6.05% for transactions in excess of $3–$3½ million and 6.25% for all other transactions. Italy has offered over $350 million worth of credit to the USSR at rates eqaul to 6.25%.

Great Britain, through its ECDG program, has not limited the amount of credits available, and has offered credits ranging from 6.05% on large transactions to 6.25% on other transactions. Japan has offered over $700 million worth of credit to the Soviets at rates averaging approximately 6% and is now negotiating additional quantities of credits.

West Germany has offered approximately $750 million worth of credits through AKA and Hermes at rates ranging from 6% to 6½%.

The Export-Import Bank, offers a flat rate of 7% plus charges for up to 45% of a proposed transaction with the USSR. At least 10% is required as a downpayment and the remaining 45% must be obtained from the United States commercial banks at existing rates. The net effect is that the combined Export-Import Bank and private bank rate can equal approximately 8% or more. In addition, it is my understanding that the bank will not provide credits to the Soviets in excess of $500 million unless and until further information is provided. Although the combined Export-Import Bank interest rate is not strictly competitive at the present time with the interest rates of the five major competitors of the United States. I do not think the difference is so great so as to be noncompetitive. As a matter of fact, one Deputy Minister of the Ministry of Foreign Trade of the USSR has indicated that the USSR could live with the present American interest rate structure.

However, I am not confident as to the volume of credit. Several projects the Soviets are presently considering—projects in which American companies have expressed an interest—would require financing in excess of $500 million. If the Soviets feel that such credits will not be available from the United States, American companies may never be given the opportunity to consider participation in such projects. For example, we were interested in considering the possibility of participating in a project known as the Kursk Iron Ore Beneficiation and Steel Complex. The proposed complex would be built in the Soviet Union and would produce approximately 7 million tons of iron oxide pellets, 5 million tons of direct reduced pellets and 3.8 million tons of steel. A West German consortium recently announced that it had signed an agreement for the project and we were informed that the United States was never really considered for the project because of its size and the volume of financing which would be required. Mr. Chairman, I submit to you that we lose in two ways by not participating in such projects. One; we lose the export sale of the machinery, equipment and technology. Two; we lose the opportunity of securing long-term contracts for the supply of certain needed raw materials. In this particular case, the USSR was willing to sell up to 2,000,000 tons per year of direct reduced pelletized iron a material roughly equivalent to pig iron or scrap. Armco Steel Corporation is finding it increasingly more difficult to obtain these products.

With respect to the several bills and resolutions which have been introduced to the Congress concerning the Export-Import Bank, we are in favor of, and support the basic philosophy and substance of H.R. 13838. We believe the Export-Import Bank should be authorized to exercise its functions for an additional four year period and that its total aggregate of loans, guarantees and insurance be increased. We are not in favor of the suggested restrictions on the Bank's activities and do not support House Resolution 774, H.R. 14257, or H.R. 13730.

We cannot support House Resolution 774, Mr. Chairman, because we are of the opinion that a suspension of the activities of the Export-Import Bank to planned economies would cause delays in the negotiation process which would work in geometric progressions. The foreign trade of planned economies is conducted by a highly diversified group of specialized ministries, institutes, committees and foreign trade organizations. It has been our experience that it is much easier to slow these organizations down than it is to get them moving forward toward conclusion of a transaction.

We cannot support H.R. 14257 because we believe that the determination of whether or not a credit should be granted on each particular transaction is basically an executive function and not one that can be effectively handled by the Legislature. In addition. we question whether attempting to use the leverage of

trade to affect the internal policies of a foreign government is, or ever has been, productive.

Finally, we cannot support H.R. 13730. If the purpose of this bill is to prevent the export of energy research, development of exploration technology and equipment to the USSR, we believe that the proper controlling legislation are the regulations promulgated under the authority of the Export Administration Act of 1969 and the regulations are clear on this particular point. If, however, the only purpose of this bill is to prevent the Export-Import Bank from financially assisting American businessmen interested in participating in USSR energy projects, we do not agree with the basic philosophy. As the United States economy expands into the 1980's and as our energy requirements increase and our energy sources decrease, we feel the United States should consider all possible sources of energy supply—neither relying on, nor ignoring any one single course.

CONCLUSION

In conclusion, Mr. Chairman, as I have previously stated, we are in favor of and support a policy which encourages trade with all countries with which we have diplomatic or trading relations including the USSR. We think it essential that the Export-Import Bank of the United States provides credits and other financial assistance which are competitive with the government supported credits and other financial assistance programs available to competitors of United States exporters. With the exception of the objectionable "contemplates or is likely to result in" language included in Section 7 (c), we recommend that the Export Administration Act of 1969, as amended, and the Export-Import Bank Act of 1945, as amended, be extended.

Thank you.

Mr. ASHLEY. Thank you, Mr. Giffen.

Our next witness is Eliot Janeway, syndicated financial columnist of the Chicago Tribune and the New York News. Mr. Janeway's column is distributed to approximately 100 newspapers here and abroad, and we are glad to have you with us this morning, Mr. Janeway.

STATEMENT OF ELIOT JANEWAY, PRESIDENT, JANEWAY PUBLISHING AND RESEARCH CORP.

Mr. JANEWAY. Mr. Chairman, criticizing the operations of the Eximbank in recent years is easy. Urging vetoes for commitments recommended to it by the administration is easier still. But recognizing the need to help this great and rightly respected institution find its way back to the wise and practical policies which built its reputation over the years is more important than censuring individual transactions and proposals. Getting on with the job of harnessing it to reassert America's shaken bargaining power in the world is a top priority responsibility for Congress. Only Congress can handle it.

At the heart of the policy problem confronting the Eximbank is a challenge deeper and broader than any facing the Bank itself. It is the role of Congress in the sovereign scheme of things in our national and international affairs. More specifically, it is the responsibility of Congress to reclaim control over the entire fiscal disbursement process and, in so doing, to assert policy direction over the Bank. I believe, Mr. Chairman, that Executive usurpation has imposed unsound policies and inappropriate pressures upon the Bank. I hope that Congress will not condone or indulge more of the same. Senior members of the Bank staff have demonstrated their competence, devotion, and special knowledge of the Bank's necessarily special procedures over the years. I regard it as a privilege to affirm my confidence in the shrewdness and

practicality of its new Chairman, William J. Casey, as the right man to modernize the oldtime Yankee trader's role in this troubled situation.

I think it appropriate to recall a key passage in an interview with him, published in my Chicago Tribune column, in June 1971, soon after he assumed the chairmanship of the Securities and Exchange Commission.

I asked him: "Are you prepared to say you wouldn't trust any of your own money to an advisory firm that wasn't making a profit?"

Chairman Casey's answer could not have been more muscular in its healthy-mindedness. "Yes, I am," he replied simply.

I suggest that the Eximbank is overdue to apply this same standard to its own operations in behalf of the American economy and the national policies needed to further its interests. Senator Lloyd Bentsen of Texas has clearly described the primary purpose the American people want their Government to serve: "to do for private persons what they cannot do for themselves." The original policy guidelines which Congress was explicit in formulating for the Bank assign it this very mission, but as a bank, not as a charity-dispensing institution or as a conduit for foreign political payoffs.

Congress has reserved to the Eximbank commitments deemed too risky, too illiquid and too long term for the commercial banks to undertake in the light of their responsibilities under the banking laws. At the same time, however, Congress has drawn a clear line between paracommercial loans and outright giveaways, whether to buy friendship from underprivileged peoples or fixes from unfriendly powers. It has explicitly directed the Eximbank to make loans which, in the language of the statute, offer a "reasonable assurance of repayment."

To take one conspicuous example of overstepping by the Eximbank in performing functions the commercial banks are perfectly able to discharge: gilt-edged financing of oil drilling equipment for operations in Norway, now accepted as the very best credit risk in Europe. Eximbank involvement in such operations is a textbook violation of the congressional injunction not to duplicate the operations of the commercial banking system.

Oil equipment venders traditionally borrow at short term at entrepreneurial rates. Substituting 6 percent money at long term is a peculiar interpretation of the doctrine: "to do for the private sector what it can't do for itself." It is all the more peculiar in light of the proprietary premium commanded the world over by U.S. oilfield equipment. It is a striking commentary on the failure of the U.S. strategic game plan that Eximbank loans in this category have enjoyed a marked increase in recent years, while our country's dependence on foreign oil has suffered as marked an increase.

The most sympathetic policy audit of the Eximbank's bulging new portfolio of oil equipment loans, all of them commercially negotiable although on less favorable terms, fails to reveal any last line national dividend for America's current energy position. It would be unfor-by an overspill of Watergate atmosphere. Those who are adept at the techniques of well-timed campaign contributions should have no special place at the Eximbank window.

To the extent that the Eximbank has permitted itself to be jockeyed into this kind of questionable operation, its wherewithal to discharge its proper function, financing paracommercial ventures not appropriate for the commercial banks to undertake, but profitable for the American economy, is clearly diverted. Congress cannot be expected to provide supplemental authorization to compensate for loan funds frozen in advances for projects the private sector is perfectly well able to manage.

At the opposite extreme, outlays to build schools in countries properly designated as clients of the aid program are just as clearly out of bounds. The Eximbank was not meant to be and will not survive as a backdoor extension of the Foreign Aid Administration, or as an outlet for hush money from the State Department. Co-opting the Bank to advance funds Congress has refused to authorize through the front door violates Eximbank's explicit obligation to limit loans to risks offering a reasonable assurance of repayment.

Consistently audited by these two congressional guidelines, no new operating departure seems indicated for the Eximbank. On the contrary, what seems to have gone wrong is the result of unauthorized improvisation outside these two guidelines. Lapses of congressional scrutiny and control over the Eximbank are not surprising in view of the more general and far-reaching invasion which, with all due respect to Congress, it has invited and sanctioned of its constitutional responsibility. Let us remember, in this year of dedication to the rediscovery of constitutional procedures, that control over the disbursing process is vested in Congress. The executive branch merely administers what its money partner authorizes.

This question of control is all important. The Eximbank is an agency of the Congress, not a back-door adjunct of the executive branch. As everyone knows, its officers are nominated by the President subject to initial Senate confirmation. But, as some people have forgotten, the institution is also subject to continuing review by both Houses of Congress of its operations as well as control over its budget. Jumbling Eximbank functions into a grab bag of White House, State Department, and executive agency whims or expedients disserves the high aims set for the Eximbank and subverts the authority of Congress.

Specifically, the ambiguity of the role of the National Advisory Committee to the Eximbank is bound to provoke controversy. So long as Congress is prepared to indulge the Executive in usurpation of its responsibility for the appropriation and spending process, the Executive is certain to accept the invitation. "Advisory" is the key word in "National Advisory Committee to the EIB." The more powerful agencies of the executive branch are represented on it. Its role is now not only advisory, but also executive. It was solely advisory when Congress retained control over the appropriations and spending processes.

Downgrading the Eximbank into an international pork barrel will not mobilize it for the new national effort that is overdue to rebuild bargaining power or trading advantage for the American economy. Dragooning the Eximbank into the administration's cloudy and necessarily unfinished business with Russia stands as a classic case history of how not to play the game in the international arena today. To avoid

any possibility of confusion, misinterpretation, or ambiguity, let me say outright that I am unreservedly in favor of special purpose as well as all-encompassing American dealing with Russia, China, and each of the more or less willing satellites of these superpowers. I favor, just as unreservedly, the limiting of any and all such dealings to the strict discipline envisioned by the late, great Secretary Cordell Hull in his concept of "reciprocal trade agreements."

I also support without qualification giveaways, within limits set by Congress and supplemented by commitments from other powers, to countries unable to help themselves. I hope that America will never turn her back upon the obligations of humanitarianism. I also hope that America will always manage her affairs prudently enough to afford to honor such claims. The most rigid distinction wants to be enforced between the humanitarian obligation to support giveaways to the Ethiopias of this world and the national practicality to require reciprocity in dealings with the Russias of this world.

I have supplemented this statement with various writings of mine recalling past policy guidelines of the Eximbank before the so-called soft loan window was opened. In the interest of nonpartisanship, it is appropriate to recall that the Eximbank was first suborned by Executive privilege under a Democratic administration. But in the days when it still did observe congressional directives, the Eximbank refused as a matter of policy to make loans to finance the export of nondurable raw materials, such as wheat and coal. Its refusal was based on the simple proposition that the raw materials, once consumed, would be unreclaimable in the case of default. To contemplate advancing hard American dollars to put assets into place in Russia's subsoil may make for good headlines. The same goes for the office building just underwritten in Moscow as a world trade center. This hardly fits with congressional injunctions to limit loans to risks offering a reasonable assurance of repayment. Nor does it serve our national interest, not when American apartment builders can't get money at 20 percent to start apartment houses in ghettoes, much less office buildings in downtown sections of big cities.

For reasons I cannot fathom, America has consistently rejected any suggestion that we bring our agripower to bear in the Middle East to offset the excesses of the petropoliticians against the entire free world. To take one crying example, Egypt has been an anxious bidder for American wheat and, more revealing still, a necessitous buyer of American flour. During the very weeks when the Eximbank was being flaunted by the administration as the chosen instrument of its gas giveaways to Russia, it was conspicuous by its absence in any negotiation with Egypt. Yet the New York Times reported as recently as April 9 that Sadat is harassed and in a hurry. "He faces," it says, "the towering problems of a national economy that has been starved since the 1967 defeat. Food is short and inflation rampant."

A proper utilization of the Eximbank role would have called for Egypt to be told that some customers are more important to this country than others. But, tragically, instead of heeding the Biblical injunction to beat swords into plowshares, the administration is beguiling Egypt with offers to take over from the Kremlin as a munitions supplier. A better mousetrap than the military model Russia offered to

Egypt is wanted. Activating the proper mission of the Eximbank, in this case, financing flour mills for Egypt, offers a better way to spread peace and prosperity through the Middle East.

If Egypt is exporting labor to other Middle Eastern countries while importing flour, she clearly needs to create jobs and install facilities for raw materials processing. She is a good credit risk, if only because she has oil as collateral. Limiting her imports to raw materials, and freeing her from dependence on imported manufacturers, would upgrade her credit standing.

Long-term loans to finance flour mill construction in Egypt would strain the prudent limits of the commercial banking system. But flour mills financed through Eximbank loans would stand as an inspirational contrast to missiles put in place by Russia and to subsidies advanced by Arab petropowers to support aggression by Egyptian mercenaries. Such advances would meet the congressional requirement for "reasonable assurance of repayment." Concurrence by Congress would, I am confident, be public, instantaneous and unanimous. No furtive dictation would be needed from the executive branch. America would get the business.

The smart way to have dealt with the Russians would have been to offer yesterday's hardware—after all, Russia's economy is less advanced than ours, and the limiting factor on her admittedly formidable military sophistication remains the inefficient backwardness of the economic base supporting her war economy. We cannot persuade her to downgrade her priority to military buildups, but we can refuse to make her a free gift of the modernized economic base she desperately needs. Instead we have been inveigled into offering her our proprietary technology for doing just this.

A long overdue overall raw materials strategy needs to be formulated in line with the "systems" approach adopted by industry. As an alternative to the happily aborted projects assigned to the Eximbank for subsidizing Russia's buildup of its strategic raw materials capability, I suggest that Congress will do better to direct the Eximbank to conceive projects aimed at filling America's own gaping deficiencies of raw materials. The way to set our priorities straight again is to supplement the raw materials resources we need to conserve, and to ship out the jobmaking, service-consuming products we can profit by exporting. It is not as if America were a drawer of water and a hewer of wood. We would do well to ponder the moral implicit in the fact that soybeans led our 1973 export revival. We might as well have shut down MIT and Cal Tech, and asked our anxious creditors to rate us as a highclass, richly endowed Ecuador.

In conclusion, I want to reaffirm my complete confidence in the leadership, management, and staff of the Eximbank. Resumption of congressional responsibility to free it from back-door exploitation by Executive power drives will vindicate the wisdom of Congress and provide continuity with the achievements of Chairman Casey's worthy predecessors.

The rules of the road are there to be followed. The people to implement them are on the job. A reassertion of congressional authority to eliminate Executive usurpation is all that is needed.

As a final case in point, the impracticality of offering to develop a proprietary American gas technology in Russia's subsoil in the midst

of a gold run against the dollar strikes me as outrageous. Russia is one of the gold powers. Reciprocity in the tradition of Cordell Hull would have called for her to put her gold on the line, as Chairman Mills demanded in 1973, as a condition of accepting an application for a gas development loan. Instead, this administration rejected Chairman Mills' attempt to stabilize the price of gold by intergovernmental selling, with results as costly as they have been disruptive, while going all out for the one-way deal Congress, to its credit, refused to sanction.

As a token of recognition by the Eximbank managements of its need for congressional direction, it did respond to my criticism of the administration for going along with Russia's demand for a subsidized interest rate by raising its rate from 6 to 7 percent. Of course, this is a mere gesture in our two-digit money market. It is high time that Congress asserted its determination to raise Americans from the status of second-class participants in their own markets. Its responsibility for policing the policies and the commitments of the Eximbank offers it an effective entering wedge to accomplish this mission.

[The articles referred to by Mr. Janeway in his statement recalling past policy guidelines of the Eximbank before the so-called soft loan window was opened, follow:]

[From the Chicago Tribune Press Service, Jan. 21, 1974]

Ex-Im Bank Depicted As Having Lost Its Way

(By Eliot Janeway)

Consulting a road map is common sense anytime you lose your way. Everyone knows that the U.S. government has. But its hope of getting on track again is no better than the road map-reading homework the voters and taxpayers are willing to do.

Reaching for a road map on the powerhouse known as the Export-Import Bank is as good a place as any to begin. If any official American vehicle of peace and prosperity has lost its way, it has. There is no chance of the American government finding its way again until the Export-Import Bank does.

No realistic assessment of the job done by the Export-Import Bank over the years can begin without acknowledging that the job it has done is tops by any standard—applicable either to government agencies or banks of any kind.

Two chairmen and one director of the bank have been respected friends of mine. The late Sam Waugh of Nebraska happened to be a Republican who served with competence, independence, and dedication. So also served Harold Linder of New York, who happens to be a Democrat. So, too, did Texas-born, Michigan-trained Hobart Taylor, who also happens to be a Democrat. I take special pride in having suggested him as Lyndon Johnson's co-counsel in 1960.

Congress set two guidelines for the Export-Import Bank. The first was positive: to finance exports valued in terms of the number of jobs created for Americans—to begin with, from the original equipment furnished and, prospectively, from the self-financing follow-on flow. The second was negative: to protect its loans by putting good collateral behind them and to avoid losses. Financing deferred payments for exports is an entirely different proposition from subsidizing the loss basis built into giveaways.

The hard-nosed guidelines set up by the Ex-Im Bank in its heyday of independence would have done credit to any major American commercial bank today. Not one of them has the tight control and overnight foolproof confidence in its overseas loan portfolio that this exemplary government agency dedicated to the bootstrapping of the American economy has. I have a vivid recollection of Waugh, the chairman, telling me, soon after President Eisenhower appointed him, that he had searched his conscience in connection with a loan request to finance the export of coal. It was clearly money-good. What worried Waugh, however, was the fact that the coal would be burned up and his collateral with

it. He turned it down. So sound were the Ex-Im Bank's operations that the banking system first became willing and then positively anxious to buy the notes receivable it seasoned—always at par.

The Kennedy years brought a modification of purpose. The social dedication of the Kennedy brothers had inspired an enthusiastic response of a social nature from the young people who flocked into the Peace Corps. Its economic counterpart took the form of a set-aside for so-called "soft money" loans to aid countries thought to be developing. Congress did not exactly applaud this new deal. But optimism was in the air, money worry was not, and help for the underprivileged abroad seemed as reasonable a use of resources as help for the insecure at home.

Everybody in America is insecure today, while doing well at America's expense has become the yardstick for measuring success abroad. The familiar pattern of government by fait accompli is making a precarious situation more so by turning the Ex-Im Bank into a grab bag at the disposal of well-heeled foreigners demanding subsidies as the condition of taking exports they cannot do without.

Lending Russia long-term money at 6 per cent to develop gas fields and pipelines beats the memorable wheat deal for bad business. The Treasury is paying more than 6 per cent for its share of the advances, and the exporting businesses borrowing their share from the banks are paying nearly twice as much. But the high cost to servicing America's high burden of debt is one of the most ominous danger signals in sight. The Treasury loses tax revenue every time the business interest bill jumps, and it loses cash via refunds anytime an overindebted taxpayer falls into the red.

One sure way to padlock the till prior to resetting national priorities would be to require congressional approval for all Ex-Im Bank loans above 100 million a year to any one country. Wright Patman, chairman of the House Banking and Currency Committee, wanted to subject the Federal Reserve Board to a policy audit which no government accounting agency is equipped to render. But watchdogging a subsidized 6 per cent interest rate to a hard-bargaining competitor of dubious value as an ally will be right up Patman's alley so long as Americans are paying 12 per cent and more, while running out of the same resource the Ex-Im Bank is being instructed to finance for Russia.

[From the Chicago Tribune Press Service, Jan. 24, 1974]

The Ins and Outs of Deals With Russ

(By Eliot Janeway)

The world outside America is split by many divisions. One such, increasingly important, is between those who do and don't realize that America has seriously overstretched her resources. The Kremlin knows it and is, nevertheless, pressing President Nixon and Henry Kissinger for more.

Professor Marshal I. Goldman, head of the Department of Economics at Wellesley College, doubles in brass as consultant to the Russian Research Center at Harvard. He is a recognized authority on East-West trade, and America's trade and money policymakers are in urgent need of his counsel.

JANEWAY: Export-Import Bank policy has certainly changed. Not too long ago it wouldn't lend even to a non-Communist country on collateral considered expendable, like coal, gas or wheat. Now it's making gas loans to Russia.

GOLDMAN: I think such distinctions are worth making. A plant to be built will be workable for 20 or 25 years, but it is to be on Soviet territory. It's not Ex-Im collateral.

JANEWAY: How much money has actually been advanced for projects in Russia?

GOLDMAN: Several hundred million dollars. The first 45 per cent of that is backed by the Export-Import Bank, and the other 45 per cent comes from the commercial banks. One discovery I just made is that the second 45 per cent is not going to be covered by the Export-Import Bank. The other 10 per cent comes from the Russians.

JANEWAY: Why is only 45 per cent being guaranteed whereas before an additional 45 per cent was guaranteed?

GOLDMAN: Apparently because of the Kremlin's obsession with saving on interest costs. If the second 45 per cent were guaranteed the rate would go up an extra one-half per cent.

JANEWAY: The commercial banks are advancing the money unexposed?

GOLDMAN: Right, and they are talking about multi-billion dollar long-term loans, which could exceed the loan limits of even the big banks. Virtually all the collateral is in the Soviet Union. If I were a stockholder, or officer, or director of these outfits, I would go out of my mind.

JANEWAY: What rate of interest are the Russians demanding?

GOLDMAN: As low as they are getting from the French. They are egging on the American businessmen . . . they are courting to press the Ex-Im Bank for it.

JANEWAY: How low is that?

GOLDMAN: In some cases under 6 percent.

JANEWAY: How can Washington justify lending to Russia at even 6 percent when most Americans are forced to pay over 12 percent?

GOLDMAN: They can't, and this is why I'm worried. But I don't criticize the Russians for getting the best deal they can just as others who borrow from the Ex-Im Bank do. I do criticize the Americans who say we've got to keep up with the French.

JANEWAY: Are the banks forcing their customers to make up the 6 percent difference?

GOLDMAN: To some extent, yes, but I think the early entrants into this game are beginning to learn their lesson.

JANEWAY: How do these American bank dealings relate to the external Russian economy?

GOLDMAN: They have just announced a devaluation of the foreign ruble. This was released only in their domestic newspapers.

JANEWAY: By how much was it devalued?

GOLDMAN. About 5 percent. This was the first devaluation since 1960.

JANEWAY: What about U.S. gas development loans including the pipeline? Do you think they will go thru?

GOLDMAN: I really don't. I don't see America putting up anywhere from $2 billion to $7 billion. The commercial banks can't tie up that much money for years on end—not when they can't handle our own Alaska pipeline financing. The Export-Import Bank isn't going to do it either. The Russians keep putting obstacles in the way of what they want. We were supposed to send a geological team to explore the gas field area, but the Russians changed their minds at the last minute.

JANEWAY: Are the Russian gas reserves large enough to warrant that kind of investment?

GOLDMAN: If exactly the same reserves were located in Canada, yes. But, the longest loan agreement the Export-Import Bank ever made was for 12 years. If we make only 12 year loans to the Japanese or the Algerians, what sense does it make to give the Russians 20-year accommodation?

Mr. ASHLEY. Thank you, Mr. Janeway. I will call on Mr. Rees.

Mr. REES. Well, Mr. Chairman, it is my understanding we are dealing with two bills. One is the Export Administration Act, and the other is the Eimbank. Now, the House passed the Export Administration Act last year, did we not, and it is now over in the Senate.

Mr. ASHLEY. Yes.

Mr. REES. So maybe the emphasis should be on the Eximbank. I think we have a lot of problems with the Eximbank law this year because of the loans that were made both to Egypt right after the Yom Kippur war, and to the Soviet Union. These loans came at a time that really gave the Eximbank a great deal of notoriety. Congress reacted to that. I believe the Ichord resolution is coauthored by a majority of the Members of the House, and under the Ichord resolution, there could not be any Export-Import Bank credits to any country which did not have most-favored-nation treatment; those countries would be, I think, Romania, the Soviet Union, Czechoslovakia, Red China.

With that type of support in the House it makes it look very difficult for the Eximbank. I think there are also amendments prepared by other Members which would stop all concessionary loans, so that if loans were made by the Eximbank, they would have to be, for example, at 10½ percent, which is the current prime rate.

So in a world competitive market when you are competing against 6-percent credit by the Japanese, for example, it would be very difficult when you have a 4½-percent differential. I think it is too bad the administration had to make the type of loans they made, knowing that they were going to have to come to Congress to have the Eximbank renewed. But it does put Congress in a very difficult position, especially with respect to the trade bill over in the Senate, and to the Jackson-Vanik amendments about the restriction of emigration by Soviet Jews.

I just wanted to throw out these observations and perhaps get some ideas from members of the panel.

Mr. Janeway, you were discussing the loan rates. Now, I found when I was an exporter dealing with Mexico—that I had a difficult time meeting competition in farm machinery with other countries because they always beat me on the interest, both on the interest rate and on the time. So don't you think we still have to have concessionary loans?

Mr. JANEWAY. Under these circumstances, Mr. Rees, I don't. I am not at all concerned with this specter of Japanese competition. In this regard, the Japanese are hurting very badly. They appear to have a policy decision. You know they change their 30-year policy commitments on 30 minutes' notice. But they appear to have made a policy decision to hold their exchange reserves at their present level, and to support their international trade operations by borrowing. This means that they are now borrowing at a 10½ percent prime rate, which means in effect a 12 percent net rate. They are borrowing 12 percent short-term money in order to sink it into Russia at long term for 6 percent—well, you know the answer to that. How long can you keep it up? How can this be profitable with volume? They will run out of steam doing that.

All of Europe is hurting. Europe wants to put money into America. As you know, Chairman Mills has secured an agreement from Secretary Shultz to remove the present withholding tax against payments on rent, royalty, interest, dividend and a State tax on foreign long-term investment. This means we will get a great deal of money from abroad. We have a great many trading advantages. There is no place Russia can get what she needs in volume, except from us.

There is another consideration, you know, in this panic to put certain kinds of equipment into Russia, with all due respect, and over the years I've had many friends in the Armco organization. We are not able, as Senator Bentsen has said in a recent speech, we are not able to furnish the steel to start our own Alaska pipeline. What is the sweat? We are not able to support American entrepreneurial concerns in getting short-term money at 15 and 18 percent.

I would like someone to explain to me the economic basis of building this Moscow World Trade Center in Russia with $36 million of Export-Import Bank money at 7 percent when there is not a building project in America that any responsible builder or banker will go forward with at present rates today. Money rates in this coun-

try are rising. The changes are coming in over the ticker faster than changes in stock market prices, and we are breaking our necks to freeze ourselves into long-term commitments at 7 percent, when inside the Soviet Union orbit, the Chinese are clearly showing themselves to be more practical than the Russians.

The Chinese are willing to pay money market rates. They have been borrowing in the Euro market. They have been beating the Russians to the punch. You know the old story about a Russian wife in a difficult situation with a drunken husband who got her husband into a wrestling match with a bear, yelling "go it husband, go it bear!"

Well, here you have a competition in the markets for our technologies between China and Russia. I respect the MAPI position and I've supported it on many grounds over the years. China last year for cash bought five nitrogen fertilizer plants in this country. I think that is great. It ties China to us. It advertises China's dependence. It shows that China knows there is only one place she can go. We get the business, we get the money. Your constituents get the orders.

I think that is great. I never criticized it. But Russia has had herself up on a political pedestal in a political showcase to prove that she can exercise an entitlement for a subsidized interest rate from us, and she has made this a political issue. I say let's meet it head on and see who needs more from whom and let's also see, in the matter of these iron pellets or the gas to be developed, what guarantee there will be—I advocate barter—what guarantee there will be of assurance of repayment in kind at a price set now. If Russia is saying, we want a 7-year rate set over the years, why do we not say, looking at the long-term premium that I think most economic analysts and businessmen would agree will attach to natural gas and to iron pellets, we want a fixed price now and we want some guarantee of repayment in kind.

Mr. Rees. Well, I hope we do not send over our wheat negotiators.

Mr. Derr. Mr. Chairman, could I respond to some of the things that Mr. Janeway has said.

Mr. Ashley. I think that would be appropriate.

Mr. Derr. I made some notes on Mr. Janeway's opening remarks and I am inclined to respond to certain of those statements.

He starts off with the observation that the role of Congress requires it to reassert some new and stringent control over the Export-Import Bank, as if no such control now existed. This of course is nonsense because Congress reviews the budget of the Export-Import Bank each year in the process of reviewing foreign aid appropriations. It is not as if the Bank were totally out from under the control of Congress. That is the first strawman.

Point No. 2: It is suggested repeatedly on pages 1, 5, 7, and 9 that the Export-Import Bank's operations result in loans that are too risky, too long term, too illiquid. This is an exact quotation and one might suppose that the Bank was run by a bunch of drunken sailors.

The fact is, as the Chairman testified before the Senate's counterpart of this subcommittee on April 2, the loss rate of the Export-Import Bank has been .02 of 1 percent, 2 cents on every $100. Now is that a bunch of wastrels in management?

Another observation: It was suggested that campaign contributions having some connection with Watergate would make it possible for one to get to the loan window faster. It seems to me that a witness

who levels a charge of such gravity before a congressional committee should be invited to submit his proofs. This is the suggestion of an indictable offense.

Point No. 3: He speaks of an international pork barrel. Now, where is the international pork barrel? Then the reference is made to the statement by Cordell Hull affirming his belief in reciprocal trade. I, too, believe in reciprocal trade, just as I believe in motherhood and apple pie, but what relation does it have to the facts of this case.

He says American builders cannot get money for 20 percent. I daresay that is true. The implication clearly is that the Export-Import Bank by its operations is diverting from the capital markets of the United States, such a vast sum of money, that builders in the United States are required to pay 20 percent for money.

Now this is absurd because, vast as the lending operations of the Export-Import Bank are, they are a miniscule portion of lending activity in the United States, and I think that every member of this subcommittee knows it.

Now I think he said at one place that the smart way to have proceeded in our negotiations with Russia, would have been to offer them last year's hardware. Have you ever dealt with a Russian? He knows about last year's hardware and this year's hardware and next year's hardware, and you cannot sell him last year's equipment. We know that in the capital goods industries.

Finally, having said all that, Mr. Janeway reaffirmed his confidence in the leadership of the Eximbank, that bunch of wastrels.

That is all I have to say at the moment, Mr. Chairman.

Mr. JANEWAY. May I reply to the reply?

Mr. ASHLEY. Let me see what Mr. Rees' disposition is.

Mr. REES. Well, I am enjoying this.

Mr. JANEWAY. I suggest that Mr. Derr might do pretty well running for office, because he certainly played horses and apples with me, and I think demagoging is the word I would use for it.

Mr. ASHLEY. Are you suggesting that people who run for office——

[General laughter.]

Mr. JANEWAY. People who lose running for office, Mr. Chairman. I did not say that Mr. Derr would be a successful candidate.

Mr. DERR. Thank you, sir.

Mr. JANEWAY. In the matter of whether loans go bad or are too good, what I said was that—and I will pinpoint this very specifically—I think you will find that in late 1968, the Eximbank had only one oil equipment loan on its books, a cracking plant to Mexico. Now I can see no economic need to get in under competitive commercial banking terms in making the kind of oil equipment loans that it has been making to top-rated credit markets. I am saying, yes, that there has been a preferential category of loan from which I see no national dividend. I see no American priorities by way of reciprocity, and this new category of loan, it appears to me, is duplicative of what the commercial banking system could do—only at better terms.

Now I was not suggesting that that category of loan might go bad. You read entirely out of context from my statement what I said about too illiquid, too long term, and so forth, relates to loans it is proper for the bank to make. These oil equipment loans to the North Sea area

are loans that are better than commercial banks have been making. They are excellent loans. What business does the Eximbank have making those loans?

Now you either deliberately or because you had not read my statement before, you got tangled up on that. I said these loans are too good to be in the Export-Import Bank category, whereas I think——

Mr. DERR. I understood you perfectly.

Mr. JANEWAY. I think the Armco loan to Burma is a good loan.

Mr. CONLAN. Mr. Chairman, could I ask some questions from our side of the aisle here?

Mr. ASHLEY. Sure.

Mr. CONLAN. Mr. Derr, you indicated our longstanding national policy was to export, just because that has been a policy. Do you also apply that into, or had you reconciled that with the expressed need for Project Independence in the area of oil and gas?

Mr. DERR. I am not sure I understood the question.

Mr. CONLAN. Well, you said earlier that our longstanding national policy has been to export anything and everything, and I am just wondering does that mean a policy should be carried out carte blanche, or are there circumstances where we need a viable and desirable national policy to increase our own independence in the oil and gas fields?

Mr. DERR. Of course not. I thought it was clearly implied in what I said, and if it was not, I now make it expressive that the machinery and allied products industries believe that that policy is still a viable policy and one that ought to be the policy of the United States.

Mr. CONLAN. You do not object to the policy of developing independence in the oil and gas fields, so that we cannot be manipulated from abroad?

Mr. DERR. Well, sir, I would like to answer that and comment on it if I may, Mr. Conlan, because it is also related to the observation that was just made by Mr. Janeway.

Mr. Giffen said—and I quite agree with his testimony—that we ought not to make ourselves totally dependent upon any single offshore source, and then comes the question, should we be dependent upon any offshore source? This becomes a matter of the highest national policy, it seems to me. I have grave doubts if Project Independence can achieve independence by the deadline date set forth, that is to say total independence within the United States for energy sources. Even if it were possible, would it be wise?

Ought we not draw upon foreign sources of energy insofar as they are available to us? Then you come to the point that Mr. Giffen made so significantly in his remarks. We ought never to depend upon a single source of offshore oil. We ought to diversify those offshore sources.

Mr. CONLAN. Yes, but I mean if there were only a limited amount of capital available on our side. If others want to develop their resources and market it to us, of course this is quite a very desirable thing. But if there is only a limited amount of dollars available for capital, and I've heard figures somewhere between $50 billion to $100 billion is what we are going to need, should not those resources be used to develop the raw materials over which in the foreseeable future we have political control? Would that be in our best interest?

Mr. DERR. I think, Mr. Conlan, my response to that would be that I would, as the Bible says, abide the event. I would let the market determine that for me when the occasion arose.

It is true that there are projects of enormous magnitude in the future. How far out and precisely where and precisely what might be involved, no one really knows. When that occasion arises then let us see what the market does.

Mr. CONLAN. Well, Mr. Chairman, Mr. Derr, I think you have made an excellent statement, almost an admission against interest, that if you let the market decide it, then the Export-Import Bank should not be in the position of subsidizing the export and the financing of oil and gas reserves in the Soviet Union; and by your own statement, by letting the market determine if the Soviets are indeed in a position to finance them, as the evidence seems to indicate.

Mr. DERR. May I then in the congressional manner extend my remarks? When I used the term market, I was using that term as it has existed in the past and, internationally, the Export-Import Bank has been a part of that market for very many years and continues to be.

Mr. CONLAN. I only raise some of these questions because we have a very difficult time explaining some of these things to our constituents in the districts across the country, where it has been indicated that interest rates are high and people do not quite understand. I was wondering also, can any of your machine products be used for war purposes?

Mr. DERR. Well, only in a roundabout sort of way, Mr. Conlan. We are certainly not in the munitions business. By way of example, we manufacture and export machine tools and power generation equipment and transportation equipment of all types, which of course in some cases does have a military application: air-conditioning and refrigeration and compressors and gears, electric motors, this sort of thing, certain of which might be components in munitions, but this is a remote, indirect connection.

Mr. CONLAN. Ball bearings and things like that?

Mr. DERR. Yes.

Mr. ASHLEY. This comes under some scrutiny by the Department of Commerce, of course.

Mr. CONLAN. I just was asking a couple of questions here, Mr. Chairman, if I could because I am kind of asking them for some of my colleagues who left, too.

Do you as a businessman feel any moral responsibility for the products you sell and to whom?

Mr. DERR. Well, sir, I suppose that all of us have different feelings of moral responsibility. I do not really think I am in a position to testify as to the moral feelings of the people whom I represent.

Let me say this with reference to sales to Russia and Eastern Europe, if this is the proposition to which you allude, and I assume it is. It was the determination of Congress and of the administration not more than 2 years ago that trade with Russia was perfectly legal and perfectly proper, and insofar as the moral element of that decision was concerned, it seemed to me and to businessmen, that that settled the question. Not for all businessmen, of course, because I know of executives in our own institute who refuse on personal grounds to

trade with Eastern Europe. This is a personal decision. Who is to say that it is moral or immoral? But it seems to me that those companies who do trade with Eastern Europe have had the signal from the U.S. Government that it is the determination of those who make national policy that it is now a right and proper thing to do.

Mr. CONLAN. Well, I think just finalizing on this one here, that that is something that at this time we are asked to reevaluate, and I think we have seen, perhaps some of us who have perhaps been a little somnolent on the area in the past, have seen from the rather direct, if not brutal use of Soviet power in the Middle East, that perhaps the policy ought to be reevaluated. Maybe the business and game of international trade should be played a little bit more realistically and with a little tougher bargaining, as perhaps, if I interpret correctly, Mr. Janeway was suggesting.

That maybe this thing ought to be a little tougher, a little bit more realistic. Maybe the Export-Import Bank and the agencies of the Government in this line should be run on a businesslike basis rather than on a giveaway foreign subsidy type basis.

So, I think this what we are looking for as a subcommittee as to what our policy should be. The fact that they have existed in the past may not mean that they are totally relevant, effective and wise for contemporary circumstances.

I will yield back, Mr. Chairman.

Mr. ASHLEY. Mr. Mitchell.

Mr. MITCHELL. I am sorry that I just have to ask rather mundane, practical questions. I do not want to veer off into the esoteric area of morality in international affairs at this juncture.

Mr. Giffen, with reference to the addition of section 7, that is page 4 of your testimony, if the words "which contemplates or is likely to result in" are deleted, then you are satisfied with section 7?

Mr. GIFFEN. We would have no strong objection to it, Mr. Mitchell although we do not really see the need for this section at all because we feel that the regulations presently adequately cover the export of technology to the planned economies.

Mr. MITCHELL. Now let me tell you why I asked that. In Mr. Derr's testimony I think he stated or inferred that this reporting technique might provide advantages to competitors. Did you Mr. Derr?

Mr. DERR. Well, the point I was trying to make, Mr. Mitchell, was this. If the full rigor of the language were carried out and agreements which related to the possibility of transferring technology were required to be delivered to the Secretary of Commerce it would very likely include agreements of which an agreement to deliver technology at some time is only an incident. These are essentially conventional licensing agreements or joint venture agreements.

Mr. MITCHELL. Then you do not share those fears at all, Mr. Giffen?

Mr. GIFFEN. Mr. Mitchell, I think it might be helpful to explain what I think this clause is getting at, and in doing so, I think one has to understand what is meant by a protocol agreement. In dealing with the Soviets we find that sometimes it is quite difficult to get their various organizations moving. In fact, it is often quite difficult for them to get moving on projects that they want to proceed on. One tactic which we have utilized in past transactions is to enter into protocol agree-

ments which are very general in nature. Such agreements are usually three or four pages long and can be utilized as marketing devices. They become sort of a game plan or marketing plan, if you will, through which we can continue our discussions, and it is a marketing program which also helps them to move forward on projects which they wish to make progress.

Quite frankly, there are some projects which an individual ministry may wish to pursue but does not have the authority for.

Once such an agreement, a protocol agreement, is signed of this nature, it helps to give lower officials the authority to do things that they otherwise would not have the authority to do.

In short, we use these protocol agreements more as marketing plans, rather than as a type of actual sales agreement. The actual sales agreements are signed with foreign trade organizations and such agreements are subject to the Department of Commerce regulations under the Export Administration Act.

Mr. MITCHELL. I understand completely what you are saying. I just really could not quite grasp your area of concern. Let me think on it a little bit more. I will come back. I have a couple of other questions I would like to get in.

One comment rather than a question, Mr. Derr. I think you were very kind in using the euphemistic language about negative attitudes toward exports. My fear is that there is a kind of the embryonic beginning of a sort of neoisolationism in this country, and that scares the devil out of me.

Mr. DERR. The term is well chosen, sir.

Mr. MITCHELL. We simply cannot run the risk of going back to a kind of isolationist, "fortress America" kind of concept. You remarked, and all of us are aware of the fact, that our balance of trade situation has dramatically improved. On the other hand, if we continue this trend of negative attitudes toward export, if we continue this embryonic neoisolationism, that I am convinced that that balance of trade deficit is going to shoot right back up to where it was and even higher.

One practical question dealing with the matter of executive and congressional determination of national interests insofar as Communist countries are concerned. You remarked about the delay, a delay in making determinations on national security and what impact that delay would have on various businesses. The Congress moves with a great deal of rapidity, everyone knows that. Notice the speed with which we resolved the energy crisis. I am being facetious now. Tell me, if we got into a situation in which there is an executive determination and then Congress had to make its determination and that took, let's say hypothetically, 8 weeks, what would be the impact of an 8-week delay?

Mr. DERR. I think we would lose the business. This is the kind of business in which you need authority to move swiftly to make commitments that are binding, to stand hitched, as it were, and then to proceed with the deal in progress. But you cannot permit delays of weeks and sometimes perhaps even months to go by if you expect to get the contract that you are attempting to get with the financing package as a part of the proposition that you offer the prospect.

Mr. MITCHELL. Then we are dealing with a very peculiar variable insofar as the Congress is concerned, because that determination might be made within 2 weeks in one instance and then in another instance it might be 18 months. There is no way to plot out a precise final table for legislative action.

Mr. DERR. Exactly, sir.

Mr. MITCHELL. May I ask a bit of advice from you, Mr. Janeway. You said the Congress must reassert its authority and not let the executive branch usurp its control over Eximbank. How do we do this?

I have been in so many committee hearings and everybody says you exert your authority. Now, suppose there was what you would term a bad business deal worked out by Eximbank and Congress says, OK, you worked out a bad deal, therefore we are going to take an extraordinary act of simply making no further money available to you for the next year. Would that not collapse the whole system of the international trade insofar as America is concerned?

What I am trying to get at is you gave a very clear-cut message to us, and I have heard that message given by many, many other witnesses. How, in this specific case, vis-a-vis, Eximbank, would you suggest that Congress move to prevent what I think you are calling unwise business ventures?

Mr. JANEWAY. That is a fair question, Mr. Mitchell. In the case of the Chinese, they have been very prudent and have stayed out of the crossfire by paying cash, and to the extent that borrowings have been required, they have borrowed commercially and come here to spend their borrowings abroad.

Now, the Russians, I suggest, are not 8 years old. They read English pretty well. Their people here talk to everybody in the situation. They even talk to me. They have come to have a very worldly mistrust of any back-door agreements made with the Executive which, if I may say so, are then subject to second-guessing by the Congress. When I hear that if we do not move quickly, Italy may get the business, my reply is that this is a yawn maker. Where is Italy going with the business? All of these countries in Europe are busted. They want to come here. None of them can finance Russia on the scale wanted by borrowing at market rates and financing Russia at the rates Russia wants to pay.

Mr. MITCHELL. Will you excuse me just a minute for interrupting you? I certainly do not want to take up more than my allotted amount of time. It is an interesting tale that you are weaving for us. What I want to know is what would you recommend to Parren Mitchell or Congressman Ashley, what would you recommend that we do when, for example, a Norwegian situation is approved by Eximbank? What specific actions do you think we could take under the law?

Mr. JANEWAY. I would move very quickly, and I would ask the management of the Bank whether it was using up the limited, the necessarily limited authorization you had given it on advances that the commercial banking system is perfectly willing and able to make at higher costs, and I would tell the Eximbank that its availabilities are limited and are to be used within these guidelines.

Now, we hear, as to the Russian gas deal, all sorts of numbers. Some of them run up to $8 billion. The Eximbank and the other agencies of

Government like the housing agencies, the bank for co-opers and so forth, are competitive claimants for funds in a limited money market. If the Congress permits the Eximbank to run wild in the money markets, borrowing at higher rates than it is lending out at, the Congress, which has an obvious responsibility in this area, will be inviting and indeed be an accessory to all sorts of squeezes of a financial nature. This is happening now.

It seems to me that if the Congress goes for a spending limit and includes in the spending limit a limit on back-door financing, that puts the obligation on the Congress to set forth guidelines within which the Export-Import Bank can use that money—for example, the oilfield equipment loan to a country like Burma or a certain set-aside for soft loan advances that the banking system cannot make. But of this latest commitment, the office building in Moscow, 2 weeks before a Treasury refunding operation which the Treasury admits is going to demoralize the credit markets, strikes me as crazy. I suggest that if you invite Chairman Burns here and ask him what his professional and administrative judgment is of that advance, what I have said here today will seem moderate.

Mr. MITCHELL. Well, thank you, Mr. Janeway. I am really not still satisfied. It is an awfully complex area. All of us admit that it is. Yet, what you are suggesting is, it seems to me, that the Congress take over an essentially administrative role.

Mr. JANEWAY. I am not, sir.

Mr. MITCHELL. Reviewing case by case within the guidelines set by Congress.

Mr. JANEWAY. Within the guidelines, but I am saying that the Bank is an agency of the Congress, and it seems to me that therefore policy control, not administrative control, of the Bank is overdue.

Mr. MITCHELL. Thank you.

Mr. ASHLEY. Mr. St Germain?

Mr. ST GERMAIN. Mr. Chairman, I have to apologize for having been at another committee meeting, and since I did not listen to all the testimony, I will not ask any questions at this point.

Mr. CONLAN. Mr. Chairman?

Mr. ASHLEY. Yes.

Mr. CONLAN. Mr. Janeway, in that connection, following up on Mr. Mitchell's suggestion, do you think there should be any policy decision by us or practice by the Bank that loans to the Soviet Union should be made in constant dollars? If the Chinese are willing to pay in cash at the particular time, it seems to me that the more we lend the Soviets, with the inflationary pressures, they hang on to their gold which increases in value, and then pay us back with cheaper dollars later on, that again this is another subsidy off the taxpayer that a tougher bargaining position would alleviate.

Is that worth while considering?

Mr. JANEWAY. I think it is. As I understand your question, as long as we are facing more inflation here, you are going to have cheaper dollars, and if you are giving them cheap money accommodation over the long term, they are going to pay you back, if they pay you back in money, in cheaper money. That is why I suggested earlier that we make barter deals with them and get paid in fixed allocations of commodi-

ties on a price preset now. I believe that this is what the Europeans as well as the Japanese are doing with them, and there is this matter of gold. We do require equity advances from the vendor. I do not see why we do not dicker with them for gold. You know, they were at one point in 1973 willing to dicker with us on the basis of 1968 dollar gold.

Mr. CONLAN. I have sat in some meetings with Mr. Alkimov.

Mr. JANEWAY. A very realistic man.

Mr. CONLAN. He is tough.

I was kind of a little bit surprised by Mr. Giffen's comment that he does not know of any leverage of trade that has ever been effective in touching foreign policy of any government, and I just am a little bit appalled by that, because we seem to have gone through a pretty good situation with the Arab oil boycott affecting both our foreign policy and our determinations.

Did you see no effect on our foreign policy out of the oil shortage?

Mr. GIFFEN. I see, Mr. Conlan, no real leverage that one can get in using trade as a bargaining item when the Soviets, for example, have other markets to go to, and to suggest that the Soviets do not have other markets to go to is ignoring the facts. The fact of the matter is that the Soviets do have access to other markets. For example, the New York Times announced today that the Soviets have recently concluded a deal with the Japanese. American companies may or may not participate in that particular transaction.

What I was referring to when I stated that we questioned the use of the leverage of trade was that we have to understand how much leverage we have in such trade. Certainly, when it comes to an item such as oil or energy, where we are dependent upon sources of energy supplied from outside the United States, there is leverage. The Arabs do have leverage. There is no doubt of that. But that is a wholly unique situation.

When however, you are comparing selling machine tools from the United States with the selling machine tools from West Germany to the U.S.S.R. I suggest to you that really we do not have as much leverage as we would like to think we have because there is an alternative source.

Mr. CONLAN. Do they have tremendous access to agricultural products and machinery, or are we their prime supplier?

Mr. GIFFEN. Agricultural products?

Mr. CONLAN. I mean agricultural machine products.

Mr. GIFFEN. Well, I do not know how much the Soviets have been purchasing in agricultural equipment in the last number of years, Mr. Conlan, but I can assure you that if the Soviets want to produce farm machinery, they will produce it. If they can put a rocket ship around the Moon, I have no doubt that they can manufacture their own agricultural machinery. The question is, whether American exporters are going to participate in that trade, and whether American exporters are going to acquire the right to purchase back certain raw materials which they may not be allowed to purchase if they do not participate in some of these transactions.

Mr. CONLAN. So your suggestion is that this be done with taxpayer dollars on a subsidy arrangement rather than a barter or tougher bargaining position that Mr. Janeway uses.

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Mr. GIFFEN. I do not understand your use of the word "subsidy," Mr. Conlan. The fact is that the Eximbank is making money on their investment.

Mr. Casey testified to that effect before the Senate. What we are talking about here is an American exporter in competition with foreign exporters, and he is in competition on price and terms and counterpurchase. I think you will find that in all of these transactions or, at least the large transactions, there is a counterpurchase involved.

One other matter that has been raised here today is the impression that the Soviets wish to purchase everything on credit terms. Quite to the contrary, they purchase most items for cash. For transactions below a certain amount, they are not currently requesting credit in every instance, nor have they ever.

We in the steel business are quite interested in asking the Soviets to sell certain products to us that we are interested in purchasing and that we cannot presently purchase in the United States in return for the sale of our products. We are trying to use the leverage of our sales to help our purchases, which is kind of a reverse situation from the past.

In short, we are in favor of barter transactions, and we are not in favor of subsidized financing. We are in favor of having American exporters be provided with the same types of credits which are accorded to other exporters from other foreign countries which are our competitors in these markets.

Mr. CONLAN. Mr. Chairman, a final question if I may, of Mr. Giffen and Mr. Derr.

Mr. Derr pointed out or made a statement about the extensive exchange of technology between us and the Soviets. Could you provide to us—you may not have it at hand—but provide a comparison of the exchange of technology of what we have given them and what technology we have received from them.

I have not read in press accounts of technology flow from the Soviet Union to us, and if you could give us documentation along that line to substantiate your statement we would like to see it.

Mr. DERR. I will certainly try to see what I can find.

Mr. CONLAN. I am trying to find out what kind of a break we are getting on technology. It is difficult to make a statement that there is a technology exchange. It seems to me what you are admitting is that there is technology flow to the Soviet Union which raises then policy questions for this country as to the overall merits of us as a governmental entity not letting the private sector doing what it wants, but as a governmental entity, subsidizing and encouraging the flow of our technology over there without consequent inflow that would be advantageous to us.

If you have any knowledge of that technology, if you would present it to us I would be appreciative.

Mr. DERR. First of all, I will attempt to respond, Mr. Conlan.

Could I, with the chairman's permission make one comment on the implications of what Mr. Conlan has said?

I am sure that in the aggregate, the flows of technology to Russia exceed those from Russia. It is to be expected because ours is a very high technology nation in all manner of enterprise. We in fact live in this competitive international world by our wits, as it were, by the products

of our wits, which is high technology, and it is natural to suppose that this would be the flow of technology. I hope it stays that way, because it has proved the fact that we are a skilled and advanced and highly ingenious race of people who can live by our wits.

Mr. CONLAN. I agree with you, and I think this is very appropriate. I think the problem that bothers many of us in the Congress and the public at large is the degree to which we appear to be supporting the economic base and in some instances I have heard, and which I would like to get more testimony, perhaps next week is the degree to which we are also subsidizing their military machine. The interrelationship here is very interesting and a little bit disconcerting, because some of us, you know—I got drawn out for 3 years of my life to spend in service when I did not relish going. I would rather have stayed at home and had a few more bucks in the bank. But all of us went. The evidence, the empirical evidence, that I just see from reading the newspaper says that the Soviets have not in any way withdrawn, modified, or reneged on their policy of world domination and aggressiveness. I think this is the thing that bothers the American public and those of us who put our lives on the line for a couple of years. Even if we could make a couple of shekels off of it, is it in our national interest to support and to strengthen the economic and technological base of another country which has by all their statements right up to the present publicized their goal of world domination. That is the thing that is difficult for us to go back to our public and say that we are encouraging and supporting and subsidizing rather than letting the Chase Manhattan or the Chemical Bank or someone else finance your fellows directly.

This is what we have difficulty explaining to the public. So if you would please submit the technology data so that we could show that we are not getting completely shafted.

Mr. DERR. I would like to add one epilog, if I may, Mr. Chairman. The fact is that in the present state of the world there is very little that we can do about Russian ambitions to control the world, if that is indeed their consistent ambition.

Mr. CONLAN. I object right there. I just make a reservation. I do not think that statement is a correct statement.

Mr. ASHLEY. Well, let him conclude what he has to say.

Mr. DERR. There is very little we can do about their intention. Now, there may be something that we can do about the fulfillment of that intention. That is another matter altogether. I assumed it to be the policy of the United States, as laid down by the administration and the Congress, to permit and indeed encourage trade with Eastern Europe and with the Soviet Union on the theory that through peaceful commerce, a way might be found out of the irreconcilable conflicts of the cold war, that ultimately we might find a way to peace on Earth, and that only through peaceful commerce is that achievable.

Now, if that is true, the first step is to achieve commerce. That commerce, as Mr. Giffen and I have been trying to say, with Eastern Europe and the Soviet Union is not going to be achievable without the agency of the Export-Import Bank. This is how I come back to the point that I think you were making.

Mr. CONLAN. All right. This then is a question that we have to analyze. Why is trade, and the buildup of their technology going to

induce them to modify their philosophical and pseudoreligious drive. That is point No. 1. That needs evaluation because in view of the Middle East situation, that whole equation must be studied anew, because we have been following a policy with them in good faith now for several years, and we found a very direct doublecross.

The second question then is, is it that when trade between peoples, privately conducted, does lead to better communication and more peaceful circumstances, is that also valid when the trade is between the private sectors and a centralized, totalitarian government that uses trade for both economic and political purposes? That is something that perhaps we need to evaluate to see what the empirical evidence shows.

Mr. Janeway?

Mr. JANEWAY. Mr. Conlan, I submit in terms of your very eloquent and practical statement that my suggestion of a flour mill program for Egypt at this time in particular would involve very little money on the part of the Export-Import Bank. It would exert enormous leverage on Russia which is on the run in Egypt. It would show that we are exactly, as this gentleman has been saying, using commerce as a lever for peace, as a substitution for arms traffic which involves more of this giveaway spending that is endless and inflationary for us, and it would show that Russia cannot compete with us in the Middle East, Russia cannot ship wheat in, Russia cannot supply flour mills. It is in Russia's interest to keep economies like Egypt dependent and off balance. It is to our interest to lend them a helping hand and get them on a broader base. This would exert enormous leverage, I repeat, on Russia, and cool off this atmosphere which I think distorts the Russian-American relationship. They are the ones who want to buy, and they have jockeyed us and conned us into a position, into a stance in which we are saying to ourselves, if we do not give them this, that, and the key to the bank, we will lose the order. Every time they get another order placed elsewhere, they are back here asking for more. They want to do business here, and for our technology as well as for our capabilities and our products.

Mr. CONLAN. I have no further questions, Mr. Chairman.

Mr. ASHLEY. There is, of course, by definition, a cost of concessionary rates, Mr. Janeway, and I suppose one of the questions that occurs to me is that these have got to be looked at in kind of a benefit-to-cost manner. We do have national objectives that are served by foreign trade, financed by concessionary rates of the Eximbank—full employment, and generation of tax revenues would be another. The stability of the dollar is certainly a national objective, and as has been pointed out, there are foreign policy considerations and objectives, peaceful relations with other countries, so that on a benefit-to-cost basis, I do not think it is quite as simple and simplistic as Mr. Conlan has suggested.

There most certainly is a responsibility on the part of the Congress to review the policy considerations that have been raised. I do not mean to be testy, but the fact of the matter is that with some regularity the subcommittee, the full committee, the House of Representatives, and the Senate have addressed themselves to the continuing review of policy objectives and considerations, and will do so again, are doing so

now. This has been a very interesting discussion this morning. We have had widely different points of view.

I must say, Mr. Janeway, that one of the points at difference seems to me, on the basis of your testimony and comments, and those of the other gentlemen, seems to be a kind of basic assumption on your part that the United States in fact really is pretty much the sole source of quality capital goods, manufacturing equipment, and technology. I just have a problem with that. I am not convinced that is the case.

Mr. JANEWAY. Mr. Chairman, I think proprietary and source of last resort might be a more realistic description, but especially in the particular areas that countries that have not been particularly friendly are most interested in, that would be covered by my concept of agripower. The Chinese have certainly demonstrated that. The Chinese can buy wheat in Canada and Australia, but when it comes to satisfying their large, their really large long term requirements, they have got to come here.

The Russians themselves in respect of petropower and agripower have again and again demonstrated that they have got to come here. In respect to one of the more successful Eximbank programs over the years, we have had the lead and the staying power, and our position is unchallenged. I am referring to airpower, commercial airline financing which the bank has extended and which has paid off very well. I think that these European economies and the Japanese economy are hurting, and that they do not have the underlying resources to overextend themselves, and that they are being forced to reborrow at short term in order to finance at long term. That is what they mean to do with Russia, though they themselves are more adept at bartering than we.

Mr. Chairman, I do not mean to be taken as objecting in principle to the so-called incentive interest rate at a time when we have these intolerable rates in our own economy, but precisely because the discrepancy is so glaring, it seems to me that it behooves the Congress, and particularly this subcommittee, to dole out advances and enjoying this incentive rate. That is why I was trying to suggest in response to Mr. Mitchell's question, that we do impose a stringent limit instead of giving the Eximbank the run of the credit markets as the administration has really been inviting it and other agencies to have, and to say, if this is your ceiling, then we want to see that the priorities go for really premium projects in the interests of the United States.

Of course, this is a political operation and not just a disoriented grab bag, hardware selling, financing operation.

Mr. ASHLEY. What you seem to be saying is that there should be greater reliance on the private lending institutions than is the situation at the present.

Mr. JANEWAY. Certainly for the North Sea——

Mr. ASHLEY. If that is so, why is it that we have heard nothing at all from the bankers, from the banking fraternity, the very large bankers that are accustomed to showing an interest in foreign trade that would suggest that they have any feeling at all with respect to the operations of the Eximbank and particularly with regard to the interest rates that they charge.

Mr. CONLAN. Mr. Chairman, I get an impression on that line as to why their interest here. I was asked to go to bat for a large national

firm that produces a raw material in my congressional district, and they wanted me to hustle a loan for them through a governmental agency, and I was given the story that this was essential, it would create certain minority jobs and other things along that line. Then it became apparent to me we could not get it, thank God, and my conscience is clear, but I have learned a lesson from it, that they could have also gone to the commercial sector and gotten that money.

Mr. JANEWAY. At higher cost?

Mr. CONLAN. A little higher cost, and they would have had to refine their operation a little bit. The project would not have been quite as lucrative, but they would have moved on it.

But they were using me as a kind of a downstreet hustler to get that subsidized money for them, and I think this is what is beginning to concern a lot of people in this country in this Eximbank area.

Mr. ASHLEY. Mr. Giffen, do you agree with the policy that was adopted by the Congress 2 years ago when it mandated that the Eximbank be competitive with similar lending institutions that support the export activity of other trading nations?

Mr. GIFFEN. Yes, absolutely. In fact, Mr. Chairman, there is one point that I would like to make with respect to Export-Import Bank financing of deals with the planned economy countries in conjunction with U.S. commercial banks. The fact of the matter is that I would like to know of any private commercial banks in the United States that will participate in financing without the Eximbank in deals with the planned economy countries.

Mr. CONLAN. Is that because the credit and the reliability of repayment is so weak on their part?

Mr. GIFFEN. Quite to the contrary, Mr. Conlan, the Soviet Union has very high credit rating. When we were talking about it earlier there was some discussion about the reliability of the Soviet Union. That is almost laughable because if you go into Swiss banking circles, you will find that Soviet paper is some of the best paper that is available. London bankers say that they can set their watches by the time when the Soviets make their payments. As a matter of fact, I have been dealing with the Soviet Union for some 8 to 10 years now, and I do not know of one single commercial contract which they have broken. They may have broken some, but I do not know of any.

Mr. CONLAN. Why do not the commercial banks finance it?

Mr. GIFFEN. You are going to have an opportunity to ask the commercial banks that this afternoon, Mr. Conlan.

Mr. CONLAN. Do you have any idea, Mr. Janeway?

Mr. JANEWAY. Well, Mr. Conlan, there is no doubt that the Russians have been punctillious in observing all of their commercial obligations. I believe you will find, however, that the record on negotiations in the gas field reinforces their reputation for responsibility commercially because, when they were asked by Secretary Connally at the time whether they would make a firm commitment to repay us in gas, they said no, you would have to take your chances.

Now, I take that as being highly responsible and commercially it is not soft talk. It is hard talk.

Mr. CONLAN. Well, this is what bothers me about the Algerian gas deal which is not unrelated to this field here. We on the east coast here are going to have to pay $1.25 per thousand cubic feet under that con-

tract while the FPC is holding it domestically at 25 or 40 cents a thousand cubic feet. We are going to go abroad with our capital at $1.25, but now the feedback has already come back, even to the press, that the Algerians want to renegotiate that figure as soon as they get the capital assets built and developed. They are going to jack it up to $2.50 a thousand cubic feet.

These are some of the things that I think are beginning to bother us all across the land. If you guys want to put your own money on the line and the private bankers want to put theirs and gamble, fine, but can we explain to the taxpayers of America who we in effect rip them off and then make a management banking decision for them.

Mr. JANEWAY. When the Russians make a commercial commitment, they are good for it, but their bravado in telling us they will not make a reciprocal commitment for this recalls Lenin's statement that the day will come when America's capitalists will come crawling to us for our orders in order to feed their hungry masses.

Well, our masses are not as hungry as theirs, and the question is, who is crawling to whom, and I say, let's wait and see.

Mr. CONLAN. Mr. Chairman, I think this has been a most informative session you have held.

Mr. ASHLEY. Gentlemen, there is a call at the House, and the subcommittee will stand in recess until 2 o'clock this afternoon.

[Whereupon, at 12:10 p.m., the subcommittee was recessed, to reconvene at 2 p.m., the same day.]

AFTERNOON SESSION

Mr. ASHLEY. The subcommittee will come to order.

This afternoon, we resume hearings on international economic policy legislation: H.R. 13838, a bill to amend the Export-Import Bank Act of 1945; H.R. 13840, to amend the Export Administration Act of 1969; and House Resolution 774, a resolution to preclude the extension of certain loans, guarantees, and insurance by the Export-Import Bank while the Senate is considering enactment of H.R. 10710, the Trade Reform Act of 1973.

Our first witness this afternoon is Kenneth M. Spang, vice president of the First National City Bank of New York, speaking on behalf of the U.S. Chamber of Commerce.

Mr. Spang?

STATEMENT OF KENNETH M. SPANG, VICE PRESIDENT, FIRST NATIONAL CITY BANK OF NEW YORK, ON BEHALF OF THE U.S. CHAMBER OF COMMERCE; ACCOMPANIED BY RICHARD O. LEHMANN, STAFF EXECUTIVE FOR THE CHAMBER'S SPECIAL PANEL ON FOREIGN TRADE POLICY AND TASK FORCE ON EXPORT CREDIT AND FINANCE

Mr. SPANG. Mr. Chairman, members of the subcommittee. I am Kenneth M. Spang, vice president of the First National City Bank of New York and a member and former chairman of the International Committee of the Chamber of Commerce of the United States, on whose behalf I am appearing here today.

Accompanying me is Richard O. Lehmann, staff executive for the chamber's Special Panel on Foreign Trade Policy and its Task Force on Export Credit and Finance. We appreciate the opportunity to discuss aspects of international economic policy related to the extension, which we support, of: (1) the Export Administration Act, and (2) the statutory authority of the Export-Import Bank of the United States. Our interest in these issues stems from a responsibility to represent a membership of over 46,000 business firms, 2,600 local and State chambers of commerce, 1,100 trade associations, and 35 American chambers of commerce abroad. This diversity of membership obliges us to assess the impact of export controls, and need for export financing from the viewpoint both of internationally and domestically oriented American business communities.

As is accepted practice, Mr. Chairman, I will summarize our remarks, but would request that the written statement which I have be placed in the record in its entirety.

Mr. Ashley. That will be done.

Mr. Spang. In the development of international economic policy, it is fundamental to recognize the interrelationship of its many parts. Exports are one key to the U.S. international economic performance. Imports, investment flows, government expenditures, and receipts from overseas production are other indicators of our international economic health. Within this overall context, expansion of American exports is crucial for two reasons. First, with the prospect that the developed nations will be simultaneously in payments deficit this year, increased export trade must be regarded as a major means of offsetting the American deficit. Two, the experience of the past year has dramatically demonstrated the dependency of the United States on imported basic raw materials to support its industrial base. We need to sell abroad to pay for what we must purchase in foreign markets.

Quite apart from consumer preference for some foreign-manufactured products, the increased prices of basic commodities make export expansion a necessary and important goal. Two major aspects of this critical effort are the issues at hand before this subcommittee: one, the competitive financing of American exports; and two, the reliability of supply.

With its enormous domestic market, the nature and meaning of exporting has often been misunderstood in the United States. It is not sufficiently appreciated that exporting and the development of markets abroad cannot be accomplished overnight, and the flow of products cannot be expected to be turned on and off like a water faucet.

In planning for export sales, American business must have reasonable assurance that there will be known and reliable sources of financing at competitive rates. Similarly, foreign business, purchasing American exports, requires reasonable certainty that their sources of supply in the United States will continue to be reliable and regular.

With these considerations in mind, we submit the following comments and recommendations relative to the legislative issues before the subcommittee.

With reference to H.R. 13838, the Export-Import Bank Act, the national chamber supports H.R. 13838, which would extend the statutory life of the Export-Import Bank of the United States, and increase its loan and guarantee commitment authority. Prompt and full enact-

ment of this legislation is a necessary step in maintaining and improving our exporters' competitive position in world markets.

The Eximbank's record since enactment of the 1971 legislation has been exemplary. The Bank has aggressively and imaginatively supported growing amounts of American exports to the $10.5 billion level of fiscal year 1973. The continuing concern with agencies such as Eximbank is that their efforts and programs be complementary to, rather than in place of, traditional activities carried out by the private sector. Eximbank, in assisting greater amounts of exports, has consistently encouraged the widest private financial community participation.

Thus, today, direct loans represent a much smaller percentage of total Bank activity than in the past. In addition, the Bank's facilities have become increasingly available and utilized by the small- and medium-sized exporter.

Eximbank's overall flexibility and program mix are, in the opinion of the exporting and financial community, fully consistent with the Bank's congressional directive to be "competitive with the Government-supported rates and terms and other conditions available" to the exporters of our major trading competitors. The crucial nature of export expansion today makes it imperative that this congressional mandate be substantially maintained. American business needs the basic assurance that long-range export development efforts will be rewarded. Certainly the price, quality, and nature of American exports justifies such efforts.

What is required, in addition, is the certainty of known and suitability competitive sources of export financing. The national chamber is confident that Eximbank will continue to provide this reliability in a responsible and responsive manner.

In testimony before the subcommittee in 1971, the chamber representative noted:

> Instead of pursuing consistent policies toward strengthening our domestic export base, the Government has maintained controls on the very tools which are crucial to successful international competition.

At that time, the controls to which we referred included restrictions on Eximbank operations, resulting from requirements of the unified budget, voluntary foreign credit restraint program, and restrictions against financing in Eastern Europe. We maintained that continued use of such controls would have negative effects on Eximbank operations and general efforts to expand American exports. We were gratified when Congress agreed to remove Eximbank from under the unified budget, and to provide the President with certain flexibility in regard to the extension of Eximbank facilities to Eastern Europe.

Earlier this year, the administration announced removal of the voluntary credit restraint program guidelines. While the lifting of these controls and restrictions is clearly not the sole reason for the dramatic expansion of Eximbank operations over the past years, that expansion would not have been as marked or effective if the Bank had been required to continue operation under the same strictures that were present prior to enactment of the 1971 act.

Serious policy issues relating to trade with Communist nations and in energy-related products have been raised in regard to Eximbank's operations. As previously noted, export markets are developed and

maintained, West and East, through reliability of supply and competitiveness of financing. The national chamber believes this market development can only be accomplished through consistent efforts, which are best achieved without unnecessary controls and restrictions.

Now, with reference to the Export Administration Act, H.R. 13840, the national chamber supports extension to 1977 of authority to control exports contained in the Export Administration Act of 1969.

We believe this authority is necessary to protect the trade and foreign policy interests of the United States. We caution, however, that its indiscriminate overuse could have serious implications for the international credibility of the United States as a source of reliable supply. Export controls, outside security considerations, are a policy alternative of utmost gravity, which should be employed only as a last resort.

With reference to retaliatory authorities, in the testimony on the Trade Reform Act before the Senate Finance Committee, the chamber supported revision of that bill "to mandate U.S. negotiators to deal with access to supplies in multilateral negotiations, and to grant the President certain powers for use against unfair foreign export restrictions." We are thus in agreement with the thrust of the administration-proposed amendment to section 3 of the Export Administration Act, which would enable the President to retaliate against countries unreasonably restricting U.S. access to supplies of a commodity. We suggest, however, that such authority may be misplaced, and inappropriate in the Export Administration Act.

A widely supported administration-proposed amendment to the Trade Reform Act would authorize the President to engage in multilateral negotiations aimed at international agreement on standards and procedures for the control of exports. Their amendment to H.R. 13840, which would give the President retaliatory power against "unreasonable—foreign export—restrictions" could create a dangerous bifurcation in trade policy. International negotiations on what constitutes "unreasonable restrictions" would be carried out under authorities conferred in one law, while in a different statute, the President could employ retaliatory authority simply by providing his own definition of "unreasonable" irrespective of the ongoing negotiations.

This dilemma could, in our opinion, best be resolved by including both the negotiating and retaliatory authority in H.R. 10710. While this may prove difficult, as that legislation is outside the purview of this subcommittee, we believe the minimum required is a responsible definitional link between the negotiating and retaliatory authorities.

Finally, a comment as to public procedures. On June 27, 1973, the administration embargoed the export of soybeans—a surprising action not only because there had been little prior indication of the seriousness of the situation, but also because there was so little done in terms of prior consultation or cooperative effort by the administration.

Following from this experience, we believe that, in the few instances where imposition of export controls may appear necessary "to protect the domestic economy from the excessive drain of scarce materials, and to reduce the serious inflationary impact of abnormal foreign demand," appropriate procedural safeguards, including prior public

hearings, should be provided all interested parties. The above-noted criterion sets out appropriately strict conditions that do not generally arise overnight. As such, public hearings and other appropriate safeguards would not seriously hinder the implementation of the procedures and requirements of this act.

At the same time, introducing an element of fairness and openness heretofore absent in the imposition of export controls would avoid the disruptive effects on contractual obligations which stemmed from the June 1973 action.

Thank you, Mr. Chairman. I would be glad to answer any questions that may occur as we proceed.

[Mr. Spang's prepared statement on behalf of the Chamber of Commerce of the United States follows:]

PREPARED STATEMENT OF KENNETH M. SPANG, VICE PRESIDENT, FIRST NATIONAL CITY BANK OF NEW YORK ON BEHALF OF THE CHAMBER OF COMMERCE OF THE UNITED STATES

I am Kenneth M. Spang, Vice President, First National City Bank, New York, and a member of the International Committee of the Chamber of Commerce of the United States on whose behalf I am appearing today. Accompanying me is Richard O. Lehmann, staff executive for the Chamber's Special Panel on Foreign Trade Policy and its Task Force on Export Credit and Finance.

We appreciate the opportunity to discuss aspects of international economic policy related to extension, which we support, of (1) the Export Administration Act; and (2) the statutory authority of the Export-Import Bank of the United States (Eximbank). Our interest in these issues stems from a responsibility to represent a membership of over 46,000 business firms, 2600 local and state chambers of commerce, 1100 trade associations, and 35 American Chambers of Commerce abroad. This diversity of membership obliges us to assess the impact of export controls and need for export financing from the viewpoint of both the internationally and domestically oriented American business communities.

THE INTERNATIONAL ECONOMY

In 1971, when the Export-Import Bank Act was last considered by the Congress, the Chamber expressed concern about our "nation's delicate trade situation." The first two quarters of that year had seen a sharp deterioration in the traditional American trade surplus while other warning signs had begun to appear internationally. Nonetheless, the basic outlook at that time, as it had been through most of the postwar era, was optimistic.

However, in summer 1971, the situation, abroad and at home, changed radically. On August 15, President Nixon suspended the dollar's convertibility, applied a 10% surcharge to all dutiable imports and initiated a wage-price freeze. At the same time, the U.S. began to experience monthly trade deficits of such magnitude that 1971 became the first deficit year, on the trade account, since 1893. With the international economy on the verge of chaos as a result of the unilateral American actions and with our own competitive export position deteriorating, a major domestic response was the introduction, in early fall, of the Foreign Trade and Investment Act, the so-called Burke-Hartke bill.

This response manifested a profound lack of understanding that the crisis situation and its ostensible cause, the overvaluation of the dollar, were long-term problems which generally stemmed from the accumulated inadequacies of the international economic system. That system, embodied primarily in the General Agreement on Tariffs and Trade (GATT) and the International Monetary Fund (IMF), was negotiated and established at the conclusion of World War II when the United States was the only significant global economic power. By 1971, however, the nations of Europe and Japan were, in every sense, our economic equals. This equality was reflected in trade flows, global competition for markets, and technological innovation; reflected everywhere, except in basic rules and concepts under which the international economic system through the GATT and IMF operated. While policies followed in the postwar movement

toward an open global trading system had been successful, it was clear that the system itself required further review and modification to take into account the economic realities of the 1970's.

POLICY RESPONSE

The American policy response to this challenge has been developed in two distinct, but parallel, efforts. In the monetary area, the December 1971 Smithsonian Agreement on currency realignments produced the first dollar devaluation followed by further devaluations—one official and one unofficial. This parity change is responsible, in large part, for the $8 billion turnaround on the American trade account between 1972 and 1973. At the same time, progress has been achieved toward basic monetary reforms in the Group of Twenty under the auspices of the IMF.

Concurrent with the Smithsonian Agreement was the commitment to engage in negotiations aimed not only at further reduction of tariff and non-tariff barriers, but also to reform the international trade rules. Progress in this area has been neither as rapid nor encouraging as in the monetary field. While in September 1973 more than 100 nations met in Tokyo to open formally the scheduled talks, earnest negotiations will not begin until the world's most powerful economy—the United States—possesses a negotiating mandate in the form of an enacted trade bill.

1973

Global economic events of 1973 have caused reconsideration of these basic approaches to foreign trade and monetary issues. With greatly intensified demands for American wheat and soybeans; with the oil embargo and its attendant price rise; and with simultaneous booms in the economies of the developed world accompanied, outside the U.S., by double-digit inflation—some contend trade and monetary reforms, in present conceptual form, are largely irrelevant. These "new" problems, it is maintained, are of sufficient magnitude and importance that they alone should be the basis for future policy development.

We disagree. It is unfortunate that the most recent economic events often tend to color unduly our responses to the challenge of long-term policy-making. For example, when the Trade Bill was introduced in April of last year, following, in 1972, the largest trade deficit in our history, concern focused internationally on expanding markets for American exports and, domestically, on how best to deal with dislocations resulting from import competition. Today, in the wake of an oil embargo with short supply situations at home, we are engrossed with the "access to supply" question. Incidentally, part of the U.S. shortages problem does not result from the actions of any foreign country, but from the poorly-conceived wage-price mechanism of the past summer when a domestic price ceiling existed absent export controls. The market mechanism thus was only partially operational so that items subject to price controls naturally flowed abroad, where market prices were substantially higher. In such circumstances, we should not exacerbate the situation by overreacting further through the imposition of export controls, but completely do away with the cause of the original distortion—wage-price controls.

As with the principle of the open market, our approach to handling the challenges and problems of the international economy must consistently address actual circumstances, not changing perceptions of them. Access to supplies was a problem long before the oil embargo and access to markets for American exports remains of utmost importance today.

EXPORTS

In development of international economic policy, it is fundamental to recognize the interrelationship of its many parts. Exports are one key to the U.S. international economic performance; imports, investment flows, government expenditures, and receipts from overseas production are other indicators of our international economic health. Within this overall context, the expansion of American exports is crucial for two reasons:

(1) With the prospect that the developed nations will be simultaneously in payments deficit this year, increased export trade must be regarded as a major means of offsetting the American deficit.

(2) The experience of the past year has dramatically demonstrated the dependency of the United States on imported basic raw materials to support its industrial base. We need to sell abroad to pay for what we *must* purchase in foreign markets. Quite apart from consumer preference for some foreign manufactured products, the increased prices of basic commodities make export expansion a necessary and important goal.

Two major aspects of this critical effort are the issues at hand before this subcommittee:

(1) Competitive financing of American exports.

(2) Reliable supply of American exports.

With its enormous domestic market, the nature and meaning of exporting has often been misunderstood in the United States. It is not sufficiently appreciated that exporting and the development of markets abroad cannot be accomplished overnight, and the flow of products cannot be expected to be turned on and off like a water faucet.

In planning for export sales, American business must have reasonable assurance there will be known and reliable resources of financing at competitive rates. Similarly, foreign business, purchasing American exports, requires reasonable certainty that their sources of supply in the United States will continue to be reliable and regular.

With these considerations in mind, we submit the following comments and recommendations relative to the legislative issues before the subcommittee.

EXPORT-IMPORT BANK ACT

H.R. 13838

The National Chamber supports H.R. 13838 which would extend the statutory life of the Export-Import Bank of the United States and increase its loan and guarantee commitment authority. The major provisions of this bill, of special interest to the business community, include:

(1) Extension of the Bank's charter to 1978.

(2) Increase in guarantees and insurance chargeable on a 25% fractional reserve basis from 10 to 20 billion dollars.

(3) Increase in loan commitment authority from 20 to 30 billion dollars.

(4) Exemption of bank borrowings from the Eximbank from provisions of the National Bank Act, where applicable.

Prompt and full enactment of this legislation is a necessary step in maintaining and improving our exporters' competitive position in world markets.

Record of the Bank

Eximbank's record since enactment of the 1971 legislation has been exemplary. The Bank has aggressively and imaginatively supported growing amounts of American exports to the $10.5 billion level of fiscal year 1973.

A continuing concern with agencies such as Eximbank is that their efforts and programs be complementary to, rather than in place of, traditional activities carried out by the private sector. Eximbank, in assisting greater amounts of exports, has consistently encouraged the widest private financial community participation. Thus today, direct loans represent a much smaller percentage of total Bank activity than in the past. In addition, the Bank's facilities have become increasingly available and utilized by the small and medium-sized exporter. Eximbank's overall flexibility and program mix are, in the opinion of the exporting and financial community, fully consistent with the Bank's congressional directive: "to provide guarantees, insurance and extensions of credit at rates and on terms and conditions which are competitive with the government-supported rates and terms and other conditions available for the financing of exports from the principal countries whose exporters compete with United States exporters."

The crucial nature of export expansion today makes it imperative that this congressional mandate be substantially maintained. American business needs the basic assurance that long-range export development efforts will be rewarded. Certainly, the price, quality, and nature of American exports justify such efforts. What is required, in addition, is the certainty of known and suitably competitive sources of export financing. The National Chamber is confident that Eximbank will continue to provide this reliability in a responsible and responsive manner.

Need to avoid unnecessary controls

In testimony before this subcommittee in 1971, the Chamber noted:

> "Instead of pursuing consistent policies toward strengthening our domestic export base, the government has maintained controls on the very tools which are crucial to successful international competition."

At that time, the controls to which we referred included restrictions on Eximbank operations resulting from requirements of the unified budget, Voluntary Foreign Credit Restraint program (VFCR), and restrictions against financing in Eastern Europe. We maintained that continued use of such controls would have negative effects on Eximbank operations and general efforts to expand American exports. We were gratified when Congress agreed to remove Eximbank from under the unified budget, and to provide the President with certain flexibility in regard to the extension of Exim facilities to Eastern Europe. Earlier this year, the Administration announced removal of VFCR guidelines.

While the lifting of these controls and restrictions is clearly not the sole reason for the dramatic expansion of Exim operations over the past years, that expansion would not have been as marked or effective if the Bank had been required to continue operation under the same strictures that were present prior to enactment of the 1971 Act.

Serious policy issues relating to trade with communist nations and in energy-related products have been raised in regard to Exim's operations. As previously noted, export markets are developed and maintained, West and East, through reliability of supply and competitiveness of financing. The National Chamber believes this market development can only be accomplished through consistent efforts which are best achieved without unnecessary controls and restrictions.

EXPORT ADMINISTRATION ACT

H.R. 13840

The National Chamber supports extension to 1977 of authority contained in the Export Administration Act of 1969 to control exports *to the extent necessary:*

(1) to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of abnormal foreign demand;

(2) to further significantly the foreign policy of the United States and to fulfill its international responsibilities; or

(3) to exercise necessary vigilance over exports from the standpoint of their significance to the national security of the United States.

We believe this authority is necessary to protect the trade and foreign policy interests of the United States. We caution, however, that its indiscriminate overuse could have serious implications for the international credibility of the United States as a source of reliable supply. Export controls, outside security considerations, are a policy alternative of utmost gravity which should be employed only as a last resort.

With the exception of the Administration-proposed amendment to Section 3 of the Act and the extension to 1977 of existing authorities, we are not in a position to comment, in any detail, on the other proposed Administration amendments embodied in H.R. 13840. We do, nonetheless, have general comments relative to the issues involved in the revision and extension of this Act.

Retaliatory authorities

In testimony on the Trade Reform Act (H.R. 10710) before the Senate Finance Committee, we supported revision of that bill "to mandate U.S. negotiators to deal with (access to supplies) in multilateral negotiations and to grant the President certain powers for use against unfair foreign export restrictions." We are thus in agreement with the thrust of the Administration-proposed amendment to Section 3 of the Export Administration Act which would enable the President to retaliate against countries unreasonably restricting U.S. access to supplies of a commodity. We suggest, however, that such authority may be misplaced and inappropriate in the Export Administration Act.

A widely-supported Administration-proposed amendment to H.R. 10710 would authorize the President to engage in multilateral negotiations aimed at international agreement on standards and procedures for the control of exports. Their amendment to H.R. 13840 which would give the President retaliatory power against "unreasonable (foreign export) restrictions" could create a dangerous

bifurcation in trade policy. International negotiations on what constitutes "unreasonable restrictions" would be carried out under authorities conferred in one law, while in a different statute, the President could employ retaliatory authority simply by providing his own definition of "unreasonable," irrespective of the ongoing negotiations.

This dilemma could, in our opinion, best be resolved by including both the negotiating and retaliatory authority in H.R. 10710. While this may prove difficult, as that legislation is outside the purview of this subcommittee, we believe the minimum required is a responsible definitional link between the negotiating and retaliatory authorities.

Public procedures

On June 27, 1973, the Administration embargoed the export of soybeans—a surprising action not only because there had been little prior indication of the seriousness of the situation, but also because there was so little done in terms of prior consultation or cooperative efforts by the Administration.

Following from this experience, we believe that, in the few instances where imposition of export controls may appear necessary "to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of abnormal foreign demand," appropriate procedural safeguards, including prior public hearings, should be provided all interested parties. The above noted criterion sets out appropriately strict conditions that do not generally arise overnight. As such, public hearings and other appropriate safeguards would not seriously hinder the implementation of the procedures and requirements of this Act. At the same time, introducing an element of fairness and openness—heretofore absent in the imposition of export controls—would avoid the disruptive effects on contractual obligations which stemmed from the June 1973 action.

Mr. Ashley. Thank you very much, Mr. Spang. We will get to questions after hearing from the other witnesses. I do appreciate your cooperation in staying within the time frame that we tried to establish.

Our next witness will be William A. Hurst, vice president of the Bank of America, speaking on behalf of the American Bankers Association.

Mr. Hurst?

STATEMENT OF WILLIAM A. HURST, VICE PRESIDENT, BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, SAN FRANCISCO, CALIF., ON BEHALF OF THE AMERICAN BANKERS ASSOCIATION; ACCOMPANIED BY DOUGLAS R. STUCKEY, VICE PRESIDENT, INTERNATIONAL BANKING DIVISION, FIRST WISCONSIN NATIONAL BANK OF MILWAUKEE

Mr. Hurst. Thank you very much, Mr. Chairman.

My name is William A. Hurst. I am a vice president of the Bank of America National Trust and Savings Association in San Francisco, and I am a member of the executive committee of the American Bankers Association's International Banking Division. With me today is Douglas R. Stuckey, vice president of the International Banking Division of the First Wisconsin National Bank of Milwaukee. We are here on behalf of the American Bankers Association and its member banks, and we appreciate the opportunity to appear before your subcommittee.

The American Bankers Association supports passage of H.R. 13838 in its three main purposes: The extension of the life of the Bank another 4 years from 1974 through June 1978; to increase its loan

guarantee and insurance commitment authority from $20 to $30 billion; and to increase from $10 to $20 billion the statutory limitation on the overall amount of guarantees and insurance which can be chargeable on a fractional reserve basis against the commitment authority. This increased authority is consistent with the growing needs of exports, and the proposed business that the Bank has projected for this period of years we are concerned with.

The proposed bill also amends the National Banking Act to permit national banks to exclude borrowings from the Export-Import Bank from their aggregate indebtedness permitted under this act. The American Bankers Association supports the adoption of this proposal. U.S. commercial banks are finding the Eximbank's discount program increasingly important. The proposal would encourage even more banks to use the discount program, and thereby stimulate greater exports. This is particularly true with respect to some of the smaller banks, where the aggregate indebtedness limitation is a serious matter. Also, it will have the added protection of affording U.S. exporters the availability of financing during periods of tight money; and also, I might add that this proposal also has the support of the Comptroller of the Currency.

Export-Import Bank activities have expanded considerably in recent years, and these activities continue to supplement and encourage, rather than displace, private capital. Cooperation with commercial banks has also grown to a point where over 200 banks—and I believe Mr. Casey mentioned in his testimony the number is now 249 banks—who are now actively participating in Export-Import Bank programs. This cooperation has proven mutually beneficial, and has contributed substantially to the rapid growth of U.S. exports and the larger national interest.

In asking this subcommittee to support H.R. 13838, we would also ask that the Export-Import facilities continue to be made available to encourage trade with all countries with which we have diplomatic and trading relations. In our judgment, it is necessary that Eximbank be permitted to extend or guarantee loans on the basis of sound economic and commercial grounds, to the U.S.S.R. and East European countries. If the United States is to compete effectively in these markets, and if, indeed, it is desirable for us to compete effectively in these markets, it should also be understood that we are not talking about exports here that can be purchased solely in the United States. Western Europe and Japan are fully capable of supplying the same goods and services to the U.S.S.R. and Eastern Europe. Indeed, with the aid of their own export credit agencies, our major competitors have already committed, in contrast to the United States, much larger sums to these nonmarket economies.

Under the circumstances, credit competition in these new and relatively unchartered markets can be decisive. Without the aid of Eximbank, we do not think that the United States will be able to obtain its fair share of these markets. However, speaking for the banking industry, I should emphasize that we do not feel qualified to comment on the merits of the various proposals before your subcommittee that would restrict, on the basis of political and humanitarian grounds, the right of Export-Import Bank to extend or guarantee loans to the U.S.S.R.

and Eastern Europe. These restrictions involve political and diplomatic issues affecting détente and the U.S.-Soviet negotiations, in which we have no expertise, and to which we have not been privy.

In short, we simply are not in a position to weigh the merits of these restrictions, or judge whether they would achieve their intended purpose. On the other hand, we can say that, as managers and participants in international financial transactions, we do feel qualified to comment on the impact we think such restrictions would have on the trade position of this country.

It is our judgment, which we have tried to underscore here, that such restrictions, however appealing and well-intentioned, would seriously impair the ability of the United States to compete in these markets.

Finally, a concluding comment on exports generally. We cannot emphasize too strongly enough just how important we feel it is for this country to encourage the growth of exports. We take a somewhat dim view of the proposals to amend the Export Administration Act also under consideration by the subcommittee, as the chairman pointed out, which would provide additional authority to apply export controls. We appreciate the difficulties in this issue. We are not opposed in principal to the purposes behind the proposals to grant additional authority to apply export controls in retaliation against foreign nations that create shortages of critical raw materials imported by the United States. It is hard to fault the argument that the United States should be at least on an equal footing with our negotiating partners for the purpose of persuading countries to come to the bargaining table to discuss such dangerously restrictive trade practices.

On the other hand, the United States should not be in the business of promoting trade warfare. The oil embargo has already heightened protectionism around the world, and encouraged some nations to pursue a go-it-alone policy, at the expense of international cooperation and good will. Although the purpose of providing additional authority to the President to curb exports is appealing as an instrument to discourage unilateral action by others, its mere existence makes it readily available and subject to abuse. It could be used without justification, and thereby contribute to further international discord and protectionism.

Consequently, we urge the subcommittee to review these proposals carefully. The hearings should fully examine the need for such retaliatory Presidential authority, and the role of Congress in overseeing such authority. The kinds of exports over which the United States has leverage, and all cooperative efforts, should be taken in consultation with our trading partners, to establish common and reasonable rules or guidelines to govern the use of retaliatory authority.

The American Bankers Association hopes that your subcommittee will report favorably on H.R. 13838. We believe the Export-Import Bank has provided significant assistance to U.S. exporters to meet and beat foreign competitors. The bank needs the additional authorities provided in the bill to continue to play a vital role in the promotion of exports in the years ahead. In turn, this will have a healthy effect on, not just the trade balance, on the balance of payments, but on the national economy as well.

Thank you, Mr. Chairman.

33–208—74——9

[Mr. Hurst's prepared statement on behalf of the American Bankers Association follows:]

PREPARED STATEMENT OF WILLIAM A. HURST, VICE PRESIDENT, BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, SAN FRANCISCO, CALIF., ON BEHALF OF THE AMERICAN BANKERS ASSOCIATION

My name is William A. Hurst, I am Vice President of the Bank of America National Trust and Savings Association and a member of the Executive Committee of The American Bankers Association's International Banking Division. With me today is Douglas R. Stuckey, Vice President of International Banking Division of the First Wisconsin National Bank of Milwaukee. We are here on behalf of the American Bankers Association and its 14,000 member banks. We appreciate this opportunity to appear before your Subcommittee.

Over the years The American Bankers Association has supported numerous programs to expand U.S. exports as a part of a larger and necessary effort to reduce this nation's persistent balance of payments deficit. The banking industry believes the growth of exports continues to warrant a high priority especially in today's increasingly competitive international environment. Since its inception, the Export-Import Bank has played a significant role in promoting exports. The enactment of appropriate legislation would enable the Bank to continue to play a similar role in the future.

The American Bankers Association supports passage of H.R. 13838. The purpose of the bill is to extend the life of ExImbank, 4 years; from June 30, 1974 to June 30, 1978; to increase its loan, guarantee and insurance commitment authority from $20 billion to $30 billion; and to increase from $10 billion to $20 billion, the statutory limitation on the overall amount of guarantees and insurance which may be chargeable on a fractional reserves basis against that commitment authority. These increased authorities are consistent with the growing needs of exports and the proposed business of the Bank in years ahead.

The proposed bill amends the National Bank Act to permit national banks to exclude borrowings from ExImbank from their aggregate indebtedness permitted under that Act. The American Bankers Association supports the adoption of this proposal. U.S. commercial banks are finding the ExImbank's discount loan programs increasingly popular. The proposal would encourage even more banks to use the discount program and thereby stimulate greater exports. In turn, added protection would be afforded U.S. exporters during periods of tight money. Finally, the proposal has the support of the Comptroller of the Currency.

ExImbank activities have expanded considerably in recent years. These activities continue to supplement and encourage rather than displace private capital. Cooperation with commercial banks has also grown to a point where over 200 banks are now actively participating in various ExImbank programs. This cooperation has proven mutually beneficial and has contributed to the rapid growth of U.S. exports and the larger national interests.

In asking this Subcommittee to support H.R. 13838, we would also urge that ExImbank facilities continue to be made available to encourage trade with all countries with which we have diplomatic or trading relations. In our judgment, it is necessary that ExImbank be permitted to extend or guarantee loans on the basis of sound economic and commercial grounds to the USSR and East European countries if the United States is to compete effectively in these markets.

It should also be underscored that we are not talking about exports that can be purchased solely in the United States. Western Europe and Japan are fully capable of supplying the same goods and services to the USSR and Eastern Europe. Indeed, with the aid of their own expert credit agencies, our major competitors have already committed—in sharp contrast to the United States—vast sums to the non-market economies. Under the circumstances, credit competition in these new and unchartered markets could be decisive. Without the aid of ExImbank we do not think the United States will be able to garner its fair share of these markets. Speaking for the banking industry, I should emphasize that we do not feel qualified to comment on the merits of various proposals before your Subcommittee that would restrict on the basis of political and humanitarian grounds the right of ExImbank to extend or guarantee loans to the USSR and Eastern Europe. These restrictions involve political and diplomatic issues affecting detente and U.S.-Soviet negotiations in which we have no expertise and to which we have not been privy. In short, we simply are not in a position to weigh the merits of these restrictions or judge whether they would achieve their intended purpose.

On the other hand, as managers and participants in international transactions we do not feel qualified to comment on the impact we think such restrictions would have on the trade position of this country. It is our judgment which we have tried to underscore here, that such restrictions however appealing and well-intentioned would seriously impair the ability of the United States to compete in these markets.

Finally, a concluding comment on exports generally. We cannot emphasize strongly enough just how important we feel it is for this country to encourage the growth of exports. We take a dim view of proposals to amend the Export Administration Act, also under the consideration of this Subcommittee, which would provide additional authority to apply export controls.

We appreciate the difficulties involved in this issue. We are not opposed in principle to the purposes behind the proposals to grant additional authority to apply export controls in retaliation against foreign nations that create shortages of critical raw materials imported by the United States. It is hard to fault the argument that the United States should be, at least, on equal footing with our negotiating partners for the purpose of persuading countries to come to the bargaining table to discuss such dangerously restrictive trade practices.

On the other hand, the United States should not be in the business of promoting trade warfare. The oil embargo has already heightened protectionism around the world and encouraged some nations to pursue "go it alone" policies at the expense of international cooperation and good will. Although the purpose of providing additional authority to the President to curb exports is appealing as an instrument to discourage unilateral action by others, its mere existence makes it a readily available instrument subject to abuse. It could be used without justification, thereby contributing to further international discord and protectionism.

Consequently, we urge this Subcommittee to review these proposals carefully. The hearings should fully examine the need for such retaliatory Presidential authority, the role of Congress in overseeing such authority, the kinds of exports over which the United States has leverage, and all cooperative efforts that can be taken in consultation with our trading partners to establish common and reasonable rules or guidelines to govern the use of retaliatory authority by the respective nations before the Subcommittee adopts any specific amendments on this matter.

The American Bankers Association hopes that your Subcommittee will report favorably H.R. 13838. We believe the Export-Import Bank has provided significant assistance to U.S. exporters to meet and beat foreign competitors. The Bank needs the additional authorities provided in the bill to continue to play a vital role in the promotion of exports in the years ahead. In turn, this will have a healthy effect on not just the trade balance and the balance of payments but on the national economy overall.

Mr. Ashley. Thank you, Mr. Hurst. We will now hear from Alexander McW. Wolfe, Jr., executive vice president of the Bankers' Association for Foreign Trade, and senior vice president of the First National Bank of Boston.

Mr. Wolfe is accompanied by Gerald Alifano, vice president of the Pittsburgh National Bank, and our old friend, Thomas L. Farmer, counsel, of the Bankers' Association for Foreign Trade.

Mr. Wolfe?

STATEMENT OF ALEXANDER McW. WOLFE, JR., EXECUTIVE VICE PRESIDENT, BANKERS' ASSOCIATION FOR FOREIGN TRADE AND SENIOR VICE PRESIDENT, FIRST NATIONAL BANK OF BOSTON; ACCOMPANIED BY GERALD ALIFANO, VICE PRESIDENT, PITTSBURGH NATIONAL BANK, AND THOMAS L. FARMER, COUNSEL, BANKERS' ASSOCIATION FOR FOREIGN TRADE

Mr. Wolfe. Thank you, Mr. Chairman.

I would like to start by saying it is particularly pleasurable to have to testify before this subcommittee because we recall with particular pleasure 3 years ago when we worked with the subcommittee on the

previous extension of the authority of the Export-Import Bank, and particularly, in the positive changes that were undertaken at that time and implemented by this subcommittee.

The BAFT was founded in 1921 to promote and expand international banking and foreign trade. Today the association represents 141 banks in 31 States throughout the United States, both large and small, with significant international operations. BAFT is the principal institution representing total ongoing international interests of the U.S. banking community.

In my testimony today I will provide introductory remarks concerning the current state of international business from a banker's viewpoint and then move into the statement of BAFT views concerning the need for expansion of Eximbank programs, specifically as regards legislative proposals now before this subcommittee. My concluding comments are directed toward indirect issues relating to U.S. export financing efforts, current misconceptions concerning the future U.S. Government role in this area, and the absolute need for the United States to maintain forward looking policies to permit its exports to meet world competition.

Having been involved in the business of international banking for over 20 years with a banking institution that has a long history of experience in financing international trade throughout the world, I can say that the United States has entered a period in which competition for world markets is stiffening. This has resulted from increased world competition in many ways including products and services offered, changing private and governmental financing programs offered and accelerated demands for credit, all of which are testing the best resources of those involved in the business. Complicating this picture are the recent international monetary dislocations and the implication for U.S. trade policy of financing the long term raw material requirements of the United States.

Although the United States, and indeed the world, has experienced a rapid growth in international trade since World War II, it has not been until recently that intense competition has been a factor. A major result of this development has been increased reliance of suppliers and their financial institutions on facilities offered by governmental export finance institutions. This is particularly true for overseas governmental export credit agencies as pointed out by William J. Casey, chairman of Eximbank in recent testimony to the U.S. Congress where he noted that in 1972 England, France, Japan, Germany, Italy, and Canada provided financing for more than three times the export business as did Eximbank—and had outstandings double that of the United States in 1972.

These trends, the BAFT believes, are sufficient to underscore the need maintenance of expanded U.S. export finance programs.

On the basis of the record of Eximbank in meeting in an enlightened way the requirements of U.S. exporters, in an increasingly competitive world and from a long term national interest standpoint, BAFT supports the present purpose and programs of Eximbank.

BAFT POLICY AND LEGISLATIVE PROPOSALS

During the past several months and at its annual meeting held earlier this month, the BAFT reviewed present programs of Eximbank in connection with proposals now before the U.S. Congress in the form of H.R. 13838 and S. 1890. The conclusions which were voted by BAFT's entire membership on April 10, 1974, are quoted from its policy statement:

> The BAFT reiterates its previous expressions of strong support for the Export-Import Bank of the United States and for this purpose urges prompt approval by the Congress of Senate bill 1890. This bill would extend the life of the Export-Import Bank for 4 years to June 30, 1978, increase the Bank's commitment authority from the present statutory limitations of $20 billion to $30 billion and increase the amount which the Bank may have outstanding in guarantees and insurance chargeable against its overall authority at 25 percent of the related contractual liability from the present $10 billion to $20 billion. We also urge the adoption of the provision of this bill which would exempt Eximbank discount and other utilizations from the statutory borrowing limits imposed on national commercial banks. We regard this exemption as critical to export financing efforts by the commercial banking community.
>
> We regard continuance and expansion of Eximbank programs as vital to the success of the total U.S. export effort. These programs must be maintained competitive with export credit programs of other countries. For this reason we would oppose introduction by the Congress of extraneous constraints on the freedom of Eximbank to extend or guarantee loans unrelated exclusively to commercial and economic criteria. Such constraints, however well intentioned on humanitarian or political grounds, would seriously impair the competitiveness of U.S. goods and services in world markets.

I would like to add the following comments in connection with the above policy statement in view of the importance which we attach to legislative proposals addressed therein:

In order for the management of Eximbank and its affiliate, Foreign Credit Insurance Association (FCIA), to intelligently program for U.S. export finance requirements in the foreseeable future, it is necessary that the maximum period extension of operating authority Congress considers appropriate be approved. The BAFT urges the U.S. Congress to authorize a minimum 4-year extension of this authority to insure a needed and reliable source of financing to meet export financing requirements of U.S. exporters.

In line with projected growth in U.S. exports over a period of 4 years, the proposed increase in Eximbank commitment authority from $20 to $30 billion is needed and supported by BAFT members. Once sales are lost in overseas markets from a long term marketing standpoint, it often takes several years to regain a footing. Recent figures reported by Eximbank indicate export sales supported in the first 8 months of fiscal year 1974 represent a 34.2-percent increase for Eximbank over the corresponding period of fiscal year 1973.

Eximbank reports that 76 percent of the number of export sales it supported last year were under its guarantee, insurance, and other programs covering small- and medium-size transactions—the majority of which supported sales of less than $250,000 in value. This supports the merits of increasing from $10 to $20 billion Eximbank authority to issue guarantees and insurance chargeable against its overall au-

thority at 25 percent of the underlying contractual liability. It is evident from the increased use of Eximbank and FCIA programs by regional banks and suppliers that the use of short and medium term U.S. Government financing facilities is on the upswing. The availability of these programs is seen to be a critical foundation block in the long term U.S. policy of promoting exports.

Exclusion from the statutory borrowing limits of national banks under the National Bank Act of liabilities incurred in borrowing from Eximbank is considered critical to the BAFT. This conclusion was reached by the BAFT after taking several surveys of its members in 1973. The surveys revealed that 47 banks among BAFT's then 138 members indicated exemptions of loans under the Eximbank discount facility from their statutory borrowing limit to be critical to their export financing efforts.

Eximbank programs must remain competitive with the highly supportive and flexible governmental export credit facilities offered by other countries. Constraints on Eximbank's freedom to meet its competition on behalf of the U.S. export community for humanitarian, political, or other reasons exclusive of commercial and economic criteria, would seriously impair marketing of U.S. goods overseas. It is a fact that many U.S. exports and overseas markets—such as the U.S.S.R. and China—that would be, or have been, denied to the United States as a result of such constraints would be, and have been, supplied by Western European or other countries.

In conclusion, a notion seems to be evident in some quarters that Eximbank programs and U.S. financial support thereof are superfluous, are possibly competitive with facilities available in the private sector and possibly are depriving other U.S. domestic needs. The BAFT submits that these notions are erroneous and run against the overwhelming evidence that continued support of Eximbank programs is needed to assist U.S. exporters to meet known overseas competition historically receiving similar governmental support. In supporting such programs the United States, among other things, is providing growing employment opportunities and guarding against possible future U.S. international balance of payments and trade shortfalls that could result from growing U.S. energy and other raw material import requirements.

Many of those who might question the need for Eximbank programs at current or projected levels fail to realize the practical business community marketplace dictated reasons for the need of such programs. The facts are that many U.S. exporters, particularly many of the smaller firms utilizing short- and medium-term facilities under the Eximbank medium term bank guarantee and F.C.I.A. insurance programs, would not be in the export business in the absence of such programs. Financial risks or loan financing would just not be supported through private sector facilities.

Furthermore, with the intense competition for world business, prompt commitments often needed to make a sale just could not be made in many cases. In the case of large overseas project financing, where oftentimes several U.S. banks are involved and large volumes of U.S. exports are at stake, the ability of Eximbank to coordinate and

submit total packages in a timely way to prospective buyers is an absolute requirement to meet bids by overseas competitors.

The foregoing BAFT believes is testament to the fact of the future need for an Eximbank equipped with the operating flexibility and commitment authority to meet the requirements of U.S. exporters while at the same time meeting overall national interests.

The BAFT hopes that these views are supported by this subcommittee and that legislation as now proposed in the form of H.R. 13838 is promptly and affirmatively acted upon in order that Eximbank may continue normal operations beyond its present June 30, 1974, operating expiration date.

Thank you for giving me the opportunity to express my views of the Bankers' Association for Foreign Trade before your subcommittee.

[Mr. Wolfe's prepared statement on behalf of the Bankers' Association for Foreign Trade follows:]

PREPARED STATEMENT OF ALEXANDER MCW. WOLFE, JR., EXECUTIVE VICE PRESIDENT, BANKERS' ASSOCIATION FOR FOREIGN TRADE AND SENIOR VICE PRESIDENT, FIRST NATIONAL BANK OF BOSTON

Mr. Chairman, my name is Alexander McW. Wolfe, Jr. I am Senior Vice President, First National Bank of Boston, Boston, Mass. I am also Executive Vice President, Bankers' Association for Foreign Trade (BAFT), Washington, D.C., on whose behalf I am presenting views today concerning legislation before the U.S. Congress involving the Export Bank of the United States and related issues.

The BAFT was founded in 1921 to promote and expand international banking and foreign trade. Today the Association represents 141 banks in thirty-one states throughout the U.S., both large and small, with significant international operations. BAFT is the principal institution representing total ongoing international banking interests of the U.S. banking community.

In my testimony today I will provide introductory remarks concerning the current state of international business from a banker's viewpoint and then move into a statement of BAFT views concerning the need for expansion of Eximbank programs, specifically as regards legislative proposals now before this Committee. My concluding comments are directed toward indirect issues relating to U.S. export financial efforts, current misconceptions concerning the future U.S. Government role in this area, and the absolute need for the U.S. to maintain forward looking policies to permit its exports to meet world competition.

Having been involved in the business of international banking for over twenty years with a banking institution that has a long history of experience in financing international trade throughout the world, I can say that the U.S. has entered a period in which competition for world markets is stiffening. This has resulted from increased world competition in many ways including products and services offered, changing private and governmental financing programs offered and accelerated demands for credit, all of which are testing the best resources of those involved in the business. Complicating this picture are the recent international monetary dislocations and the implication for U.S. trade policy of financing the long term raw material requirements of the U.S.

Although the U.S., and indeed the world, has experienced a rapid growth in international trade since World War II, it has not been until recently that intense competition has been a factor. A major result of this development has been increased reliance of suppliers and their financial institutions on facilities offered by governmental export finance institutions. This is particular true for overseas governmental export credit agencies as pointed out by William J. Casey, Chairman of Eximbank in recent testimony to the U.S. Congress where he noted that in 1972 England, France, Japan, Germany, Italy and Canada provided financing for more than three times the export business as did Eximbank—and had outstandings double that of the U.S. in 1972.

These trends, the BAFT believes, are sufficient to underscore the need for maintenance of expanded U.S. export finance programs.

On the basis of the record of Eximbank in meeting in an enlightened way the requirements of U.S. exporters in an increasingly competitive world and from a long term national interest standpoint, BAFT supports the present purpose and programs of Eximbank.

BAFT POLICY AND LEGISLATIVE PROPOSALS

During the past several months and at its annual meeting held earlier this month, the BAFT reviewed present programs of Eximbank in connection with proposals now before the U.S. Congress in the form of H.R. 13838 and S. 1890. The conclusions which were voted by BAFT's entire membership on April 10, 1974 are quoted from its policy statement:

"The BAFT reiterates its previous expressions of strong support for the Export-Import Bank of the United States and for this purpose urges prompt approval by the Congress of Senate Bill 1890. This Bill would extend the life of the Export-Import Bank for four years to June 30, 1978, increase the Bank's commitment authority from the present statutory limitations of twenty billion dollars to thirty billion dollars and increase the amount which the Bank may have outstanding in guarantees and insurance chargeable against its overall authority at 25 percent of the related contractual liability from the present ten billion to twenty billion dollars. We also urge the adoption of the provision of this Bill which would exempt Exim discount and other utilizations from the statutory borrowing limits imposed on National commercial banks. We regard this exemption as critical to export financing efforts by the commercial banking community.

"We regard continuance and expansion of Eximbank programs as vital to the success of the total U.S. export effort. These programs must be maintained competitive with export credit programs of other countries. For this reason we would oppose introduction by the Congress of extraneous constraints on the freedom of Eximbank to extend or guaranty loans unrelated exclusively to commercial and economic criteria. Such constraints, however well intentioned, on humanitarian or political grounds, would seriously impair the competitiveness of U.S. goods and services in world markets."

I would like to add the following comments in connection with the above policy statement in view of the importance which we attach to legislative proposals addressed therein:

1. In order for the management of Eximbank and its affiliate, Foreign Credit Insurance Association (F.C.I.A.), to intelligently program for U.S. export finance requirements in the foreseeable future, it is necessary that the maximum period extension of operating authority Congress considers appropriate be approved. The BAFT urges the U.S. Congress to authorize a minimum four year extension of this authority to insure a needed and reliable source of financing to meet export financing requirements of U.S. exporters.

2. In line with projected growth in U.S. exports over a period of four years, the proposed increase in Eximbank commitment authority from twenty billion dollars to thirty billion dollars is needed and supported by BAFT members. Once sales are lost in overseas markets from a long term marketing standpoint, it often takes several years to regain a footing. Recent figures reported by Eximbank indicate export sales supported in the first eight months of FY 1974 represent a 34.2 percent increase for Eximbank over the corresponding period of FY 1973.

Eximbank reports that 76 percent of the number of export sales it supported last year were under its guarantee, insurance and other programs covering small and medium size transactions (the majority of which supported sales of less than $250,000 in value). This supports the merits of increasing from ten to twenty billion dollars Eximbank to issue guarantees and insurance chargeable against its overall authority at 25 percent of the underlying contractual liability. It is evident from the increased use of Eximbank and F.C.I.A. programs by regional banks and suppliers that the use of short and medium term U.S. Government financing facilities is on the upswing. The availability of these programs is seen to be a critical foundation block in the long term U.S. policy of promoting exports.

3. Exclusion from the statutory borrowing limits of national banks under the National Bank Act of liabilities incurred in borrowing from Eximbank is considered critical to the BAFT.

This conclusion was reached by the BAFT after taking several surveys of its members in 1973. The surveys revealed that 47 banks among BAFT's then 138

members indicated exemptions of loans under the Eximbank discount facility from their statutory borrowing limit to be critical to their export financing efforts. A pertinent part of the final BAFT committee report of September 1973 in connection with this survey reads as follows:

"Many banks, both large and small, in money market centers, as well as regional areas, find their proximity to their respective statutory borrowing ceiling severely limits their ability to participate in Eximbank's Discount Loan and/or Cooperative Financing Facility programs, and thus prevents them from providing greatly needed export financing. Our findings indicated that at least 23 banks would be so affected."

If the Committee needs further information to support BAFT's views on this matter, we would be glad to supply it.

4. Eximbank programs must remain competitive with the highly supportive and flexible governmental export credit facilities offered by other countries. Constraints on Eximbank's freedom to meet its competition on behalf of the U.S. export community for humanitarian, political or other reasons exclusive of commercial and economic criteria, would seriously impair marketing of U.S. goods overseas. It is a fact that many U.S. exports and overseas markets (such as the U.S.S.R. and China) that would be (or have been) denied to the U.S. as a result of such constraints would be (and have been) supplied by Western European or other countries.

CONCLUSION AND REMARKS

A notion seems to be evident in some quarters that Eximbank programs and U.S. financial support thereof are superfluous, are possibly competitive with facilities available in the private sector and possibly are depriving other U.S. domestic needs. The BAFT submits that these notions are erroneous and run against the overwhelming evidence that continued support of Eximbank programs is needed to assist U.S. exporters to meet known overseas competition historically receiving similar governmental support. In supporting such programs the U.S., among other things, is providing growing employment opportunities and guarding against possible future U.S. international balance of payments and trade shortfalls that could result from growing U.S. energy and other raw material import requirements.

Many of those who might question the need for Eximbank programs at current or projected levels fail to realize the practical business community-market place dictated reasons for the need of such programs. (The facts are that many U.S. exporters, particularly many of the smaller firms utilizing short and medium term facilities under the Eximbank medium term bank guarantee and F.C.I.A. insurance programs, would not be in the export business in the absence of such programs. Financial risks or loan financing would just not be supported through private sector facilities.)

Furthermore, with the intense competition for world business, prompt commitments often needed to make a sale just could not be made in many cases. In the case of large overseas project financing, where oftentimes several U.S. banks are involved and large volumes of U.S. exports are at stake, the ability of Eximbank to coordinate and submit total packages in a timely way to prospective buyers is an absolute requirement to meet bids by overseas competitors.

The foregoing BAFT believes is testament to the fact of the future need for an Eximbank equipped with the operating flexibility and commitment authority to meet the requirements of U.S. exporters while at the same time meeting overall national interests.

The BAFT hopes that these views are supported by this Committee and that legislation as now proposed in the form of H.R. 13838 is promptly and affirmatively acted upon in order that Eximbank may continue normal operations beyond its present June 30, 1974, operating expiration date.

Thank you for giving me the opportunity to express the views of the Bankers' Association for Foreign Trade before your Committee.

Mr. Ashley. Thank you, sir.

Our final panelist this afternoon is Peter Beter, a former staff counsel of the Export-Import Bank.

Do you have a statement, Mr. Beter, and wish to proceed, sir?

STATEMENT OF PETER BETER, FORMER STAFF COUNSEL, EXPORT-IMPORT BANK

Mr. BETER. Thank you very much, Mr. Chairman.

I appreciate the opportunity to appear before this subcommittee in its deliberations on H.R. 13838, a bill to extend the life of the Export-Import Bank for 4 years, among other things.

Mr. Chairman, my name is Peter Beter. I have been a member of the District of Columbia bar since 1951. From that date to 1961, I also was general counsel for the American Gold Association. In 1961, President Kennedy, through the combined efforts of the late Gov. George Docking and Charles Meriweather of Alabama, appointed me as a counsel in the general counsel's office of the Export-Import Bank of the United States, where I remained as such until 1967, when I resigned to run for the governorship in my home State of West Virginia.

Having lost such a bid, I accepted an invitation to do business in the Republic of Zaire, formerly known as the Belgian Congo, where I have been more or less since 1968. Such a business in the development of mineral and industrial fields has brought me into contact with knowledgeable leaders in and out of governments here and abroad.

I am a member of the Bankers Club of America, the Judicature Society, the Royal Commonwealth Society of London, and I am listed in the current editions of Who's Who in the East, the Blue Book in London, and the 2000 Men of Achievement in London. I am the author of a new book entitled "Conspiracy Against the Dollar: The Spirit of the New Imperialism," published by George Braziller, Inc. Currently I am appearing on radio talk shows in the United States, while being at the same time consultant to heads of corporations here and abroad, among others, on international, financial, and legal problems.

Mr. Chairman, one of the subjects I write about in my new book is stagflation, which is stagnation in the economy with inflation. With your permission, I would like to quote directly from my new book having to do with Eximbank, pages 93 to 97 thereof:

During this period of stagflation, America would also be engaged in East-West trade. Credit facilities would be stretched to the breaking point. All the client followers of corporate aristocracy, including the dynasty itself, would exhort the Export-Import Bank of the United States to extend credit to its foreign buyers.

The Export-Import Bank of the United States, Eximbank, was first established by Executive order of President Roosevelt in 1934 to help develop trade between the United States and the Soviet Union. At that time, the United States had only recently extended diplomatic recognition to the Soviet Union. However, no trade on credit took place then between the parties; this would happen 40 years later under a Republican administration.

Eximbank went on to do a good job in helping U.S. exporters to sell their products abroad by extending credit to foreign buyers. It had a good record in its banking operations. Although an independent agency of the U.S. Government, it was made to finance the sale of military equipment during the Kennedy and Johnson administrations. During this time, Eximbank also caused participation certificates to be issued to favored institutional investors in the United States and abroad to raise funds. Congress did not fund the Bank, although it was bound by Government budget limitations.

Eximbank is a very important tool for the forces of the new imperialism. They can force it to borrow huge dollar amounts from the U.S. Treasury in order to finance East-West trade. This means borrowing the money of the American taxpayers from the U.S. Treasury at a rate of interest more than it would lend to the countries involved in East-West trade.

Eximbank may have outstanding at any one time loans, guarantees, and insurance on loans aggregating $27.5 billion. If this figure could be translated into "assets," the bank could come in third of the top 20 banks in the world with Bank of America first, First National City Corp. of New York second, and Chase Manhattan Corp. fourth. The Barclays Bank Group would be fifth.

The bulk of the programs administered by Eximbank assists the corporate aristocracy in its export sales on a credit basis.

While these export sales do sustain employment in certain specialized areas, there is no actual benefit to employment at large. The bulk of these programs benefit multinational banks and harm the Old World theory of balance of payments. If and when foreign buyers repay loans in a stagflation era, they will be repaying in "soft" dollars.

Here is another instance where the corporate aristocracy is being subsidized to export jobs. Although the products exported must be manufactured in the United States, it would increasingly be found that the bulk of the exports would have been manufactured in Europe or Japan, or the bulk of components would be manufactured abroad, exported to America for assembly, and then reshipped abroad to the foreign buyers. This would be completely contrary to the sole purpose of the Eximbank—to finance the export of U.S.-made products.

A flagrant example of stretching the usual banking terms of Eximbank is the financing of a plant to produce trucks and engines on the Kama River, 550 miles east of Moscow. This financing was approved March 21, 1973.

Eximbank's usual length of term for loans range from 3 to 5 or 7 years for a limited class of products. However, the repayment period for this loan is 12 years, with a grace period of 4½ years; in effect, a total of 16½ years before the first repayment is made.

The Government of the Soviet Union guarantees to Eximbank its credits extended or guaranteed by Eximbank to the Bank for Foreign Trade of the U.S.S.R. Normally, credits extended by Eximbank are deposited in U.S. banks where the foreign importer draws on credit to pay the American exporter. Not in this case, however; Eximbank's portion of the money will be deposited directly into the coffers of the Vneshtorgbank in Moscow.

Participating, too, in the overall loan of $192.1 million is Chase Manhattan Bank. Chase provided $86.4 million guaranteed by the Ministry of Foreign Trade of the U.S.S.R. Eximbank charged 6 percent interest, but Chase will not make public its terms for its part of the overall loan. Some American bankers suspect that Chase's interest rate is somewhat lower than Eximbank's 6 percent rate. If true, this would beat Chase's competitors for this type of banking business.

Eximbank credit facilities will be used for many such projects in the East-West trade shuttle during the stagflation era. To accomplish this, it will have to dip into its reserves. In addition, billions of taxpayer dollars will be used for such East-West trade. To assist in this travesty, an office in the U.S. Commerce Department will be invented to "stimulate" East-West trade, using Eximbank as an abyss for dollars. Stagflation and East-West trade could eventually cause Eximbank to close its doors.

Mr. Chairman, the above words were written last year this time; I stand behind them. Also, you will note that I predict that "stagflation and East-West trade could eventually cause Eximbank to close its doors." I therefore submit the following question for consideration: Since it is only a matter of time when Eximbank will go bankrupt for the reasons cited in my book, why not close it down now?

Out of the Great Depression of 1929 came the Reconstruction Finance Corporation. It helped by affording credits and other assistance to domestic business and banks. By the early 1950's, its general purposes and policies had been accomplished, and so its lending powers were terminated September 28, 1953. Certain functions were assigned to appropriate agencies, including Eximbank, for liquidation. In the same manner, liquidate Eximbank and assign all liquidation matters to the arm of Congress, the General Accounting Office.

The purposes for which Eximbank was established have long since been overtaken by a new era of Eurodollars, multinational corpora-

tions, and banks. It no longer meets the criteria of the United States to foster expansion of American-made exports and related services and maintenance of high levels of employment, real income, and the increased development of the productive resources of the United States. To the contrary, it helps to subsidize those general industries in exporting jobs.

Further, Eximbank competes with private capital. When Eximbank was first established, private capital for small and medium exporters was almost unavailable. Since that time, private capital has come of age and can now reasonably assume current commercial and political risks, among other things. It has available to it enormous funds, here and abroad.

Moreover, Eximbank has, generally, gotten away from helping the small and medium exporter and is now considered a friend of large financial and industrial giants who manufacture exotic equipment abroad and import them here for assembly. By 1972, the U.S.-based multinational corporations controlled 80 percent of Europe's electronic data processing, one-third of its refining capacity, and 50 percent of its industrial semiconductors market. It accounted for some 90 percent of all outside investment. I am not talking here about the small insurance policies issued by FCIA; that is a separate topic. Interest charged by Eximbank is much lower than that of private capital.

On October 3, 1973, it was reported by the Los Angeles Times from Moscow that Secretary of the Treasury George Shultz had revealed that Russia had received a total of $337 million worth of credit from Eximbank "well within a ceiling set by the White House for money loaned without the usual credit information." Shultz further revealed that a new rule had been concocted: "No single deal of more than $10 million can be certified by the Bank without special approval under this rule." Eximbank is supposed to be an independent agency of the United States. How is it that the White House must certify under this new rule? Does this rule meet the policy laid down by Congress of "reasonable assurance of repayment"?

We have entered the era of shortages and barter and can ill afford to export valuable commodities. Moreover, the value of our currency is deteriorating at an alarming rate and any loans to be repaid Eximbank will surely be in cheap "soft" dollars, dollars with no gold backing, gold having been demonetized and phased out, having been sold in secret to special financial interests in violation of law. Thus, loans made by Eximbank will have become aid and not loans for trade purposes.

Eximbank has for years afforded Japan trade loans for cotton, computers, light and heavy industry products. These loans have freed Japan to loan her client states and others huge sums of money from its own Export-Import Bank. Also, these loans have helped Japan to penetrate China and Russia so that, in effect, Eximbank has aided Japan to compete with us for these new markets.

The argument is always made that Eximbank needs additional funds and more flexibility to meet competition from other exporting countries. In truth there is no competition from other exporting countries in this age of multinational corporations and banks.

It should be remembered that Eximbank's loans for exports have no effect on the Old World theory of balance of payments until the loans have been repaid. Since they may be repaid in cheap dollars, what real benefit is there to the United States and its taxpayers?

The same question can be asked of those financial institutions who have purchased Eximbank's participation certificates. They do not carry the full faith and credit of the U.S. Government, since it is an independent agency of the United States and can be sued just like any other private corporation.

What real benefit can accrue to investors of these participation certificates when interest and principal will be paid in soft dollars? The only thing behind these participation certificates are the Bank itself and the outstanding loans, a great part of which are now bad debts. No amount of deceitful bookkeeping should hide this fact. The General Accounting Office should have an in-depth report made on this point.

We should deal with Russia on a cash basis. She has the gold. It can be used as collateral if she does not want to sell it. One reason she is not selling it at the moment is because she knows that sometime in the near future gold will be officially pegged at $2,000 per ounce.

This is an open secret in Zurich. That is why Russia has been late in payments on her wheat deal with the United States. But never mind; the loan to her by Chase Manhattan Bank is guaranteed by the U.S. taxpayer through his Government. When Russia does sell some of the gold which I saw in Zurich last month, she will receive a huge windfall profit, and so the wheat deal will have cost her absolutely nothing.

As I wrote in my book:

> As a result of these so-called loans by the executive machinery of the American Government, the social programs in America to help the American people will be curtailed drastically for the benefit of the Soviet Union, China, and East European trade. Huge exports of wheat and other agricultural commodities to these countries will cause some food shortages, transport dislocations, and greatly increased costs in business activity. However, the cost of oil products will soar because their prices are arbitrarily established by the dynasty and the corporate aristocracy. A gallon of gasoline, for example, will cost at least three or four times its 1972 price in the second 5-year-plan period—the stagflation period.

If Eximbank is abolished, we will not fall into the trap of linkage—linkage of credit with emigration, which is an interference in the domestic affairs of a foreign country. As a result of this crucial issue of linkage, we have lost our credibility, which, in turn, has had an adverse effect on the conduct of our foreign relations. We should not fall into this trap. It is bad precedent. Other countries could use linkage against us, and we would not like it.

On July 17, 1973, David Rockefeller, chairman, Chase Manhattan Bank, stated before the Senate-House Economic Committee that if we do not extend credit to the Communist countries, Europe and Japan will do so. This is so, so far as Japan is concerned, a true statement.

As for Europe, the statement is misleading. For it is in Europe where the U.S.-based multinational corporations have made their newest investments. Together they represent assets well over $300 billion, more than the combined assets of the countries of Western Europe. In Europe, these multinational corporations had, in effect, reached the level of a private centralized state but without an army.

In any event, if the Communist countries really need our specialized items such as computers and the like, they will find a way to buy them from our U.S.-based multinational corporations or their affiliates in Europe. Many deals can be "imaginatively structured," as they say on Wall Street, to exclude guarantees and subsidies from the U.S. taxpayers via the Eximbank.

Moreover, earmarked items from Japan have been allocated by Russia, and the United States and Europe are earmarked for smaller shares of this trade. Japan knows that Russia is playing her off against the United States and Europe, for Russia really wants Japan to be a part of the New Axis of this century.

As for China, she also wants Japanese products and a guarantee that any Soviet-Japanese oil pipeline will not enable Moscow to build up its naval fleet and provide fuel for tanks and warplanes to be used against her along the Sino-Soviet border and the Soviet Far Eastern region. The pressure is on China to join this New Axis.

David Rockefeller also stated on July 17, 1973, that "more trade with Communist countries would lead to improved relations generally and a lessening of the arms burden. There is admittedly a degree of risk involved."

If Mr. Rockefeller really feels that trade leads to peace, would he still do trade without U.S. guarantees and insurance? Would he trade without using the taxpayers' money?

It is submitted that if Government backing is removed from these so-called loans, it would cause private capital to take a more hard-headed approach to cause Russia and other like countries to make adequate concessions. This is as it should be, and these countries would have more respect for the lender. Private capital should be made to take the risks of doing East-West business; it should not lean on the taxpayers for protection in the form of Government guarantees in case of default on loans.

Eximbank is a flea on the behind of an elephant. It should be liquidated, thereby unleashing the pent-up competitive energy now locked up in our large multinational corporations and banks. They must be made to drive hard bargains and to stand on their own legs. As it is, they are on public welfare. To think they pay no U.S. income taxes on profits made by their affiliates in Europe until such profits are remitted here. No wonder there is over $100 billion washing around Europe. If these multinationals were taxed on their income earned abroad, the tax load on the average working man and woman in America would be substantially reduced.

Thank you, Mr. Chairman.

[Mr. Beter's prepared statement follows:]

Prepared Statement of Peter Beter, Former Staff Counsel, Export-Import Bank

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Mr. Chairman: One of the subjects I write about in my new book is STAGFLATION (stagnation in the economy WITH inflation). With your permission I would like to quote directly from my new book having to do with Eximbank (pages 93 to 97 thereof):

"During this period of stagflation America would also be engaged in East-West trade. Credit facilities would be stretched to the breaking point. All the client followers of the corporate aristocracy including the dynasty itself would exhort the Export-Import Bank of the United States to extend credit to its foreign buyers.

"The Export-Import Bank of the United States (Eximbank) was first established by executive order of President Roosevelt in 1934 to help develop trade between the United States and the Soviet Union. At that time, the United States had only recently extended diplomatic recognition to the Soviet Union. However, no trade on credit took place then between the parties; this would happen forty years later under a Republican administration.

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"Here is another instance where the corporate aristocracy is being subsidized to export jobs. Although the products exported must be manufactured in the United States, it would increasingly be found that the bulk of the exports would have been manufactured in Europe or Japan, or the bulk of components would be manufactured abroad, exported to America for assembly, and then reshipped abroad to the foreign buyers. This would be completely contrary to the sole purpose of the Eximbank: to finance the export of U.S.-made products.

"A flagrant example of stretching the usual banking terms of Eximbank is the financing of a plant to produce trucks and engines on the Kama River in the town of Naberejnaya Chelny, 550 miles east of Moscow. This financing was approved March 21, 1973.

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Further, Exim competes with private capital. When Exim was first established, private capital for small and medium exports was almost unavailable. Since that time private capital has come of age and can now reasonably assume current commercial and political risks, among other things. And it has available to it enormous funds, here and abroad. Moreover, Eximbank has, generally, gotten away from helping the small and medium exporter, and is now considered a friend of large financial and industrial giants who manufacture exotic equipment abroad and import them here for assembly. By 1972, the U.S.-based multinational corporations controlled 80 percent of Europe's electronic data-processing, one-third of its refining capacity, and 50 percent of its industrial semiconductors market. It accounted for some 90 percent of all outside investment. (I am not talking here about the small insurance policies issued by FCIA; that is a separate topic). Interest charged by Eximbank is much lower than that of private capital.

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formation." (Emphasis added). Shultz further revealed that a new rule had been concocted: "No single deal of more than $10 million can be certified by the bank without special approval under this rule." Exim is supposed to be an independent agency of the United States. How is it that the White House must certify under this new rule? Does this rule meet the policy laid down by Congress of "reasonable assurance of repayment"?

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It should be remembered that Eximbank's loans for exports have no effect on the Old World theory of balance of payments until the loans have been repaid. And since they may be repaid in cheap dollars, what real benefit is there to the United States and its taxpayers? The same question can be asked of those financial institutions who have purchased Eximbank's participation certificates. They do not carry the full faith and credit of the United States government since it is an independent agency of the United States and can be sued just like any private corporation. What real benefit can accrue to investors of these participation certificates when interest and principal will be paid in soft dollars? The only thing behind these participation certificates are the Bank itself and the outstanding loans—a great part of which are now bad debts. No amount of deceitful bookkeeping should hide this fact. The General Acccounting Office should have an in depth report made on this point.

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than the combined assets of the countries of Western Europe! In Europe these multinational corporations had, in effect, reached the level of a private centralized state, but without an army. In any event, if the Communist countries really need our specialized items such as computers and the like they will find a way to buy them from our U.S.-based multinational corporations or their affiliates in Europe. Many deals can be "imaginatively structured," as they say on Wall Street to exclude guarantees and subsidies from the U.S. taxpayers via the Eximbank. Moreover, earmarked items from Japan have been allocated by Russia and the United States and Europe are earmarked for smaller shares of this trade. Japan knows that Russia is playing her off against the United States and Europe for Russia really wants Japan to be a part of the New Axis of this century. As for China, she also wants Japanese products and a guarantee that any Soviet-Japanese oil pipeline will not enable Moscow to build up its naval fleet and provide fuel for tanks and warplanes to be used against her along the Sino-Soviet border and the Soviet Far Eastern region. The pressure is on China to join this New Axis.

David Rockefeller also stated on July 17, 1973 that "more trade with Communist countries would lead to improved relations generally and a lessening of the arms burden. There is admittedly a degree of risk involved." If Mr. Rockefeller really feels that trade leads to peace, would he still do trade without United States guarantees and insurance? Would he trade without using the taxpayers' money? It is submitted that if government backing is removed from these so-called loans, it would cause private capital to take a more hard-headed approach to cause Russia and other like countries to make adequate concessions. This is as it should be and these countries would have more respect for the lender. Private capital should be made to take the risks of doing East-West business; it should not lean on the taxpayers for protection in the form of government guarantees in case of default on loans.

Eximbank is a flea on the behind of an elephant. It should be liquidated, thereby unleashing the pent-up competitive energy now locked up in our large multinational corporations and banks. They must be made to drive hard bargains and to stand on their own legs. As it is they are on public welfare. And to think they pay no U.S. income taxes on profits made by their affiliates in Europe until such profits are remitted here. No wonder there is over $100 billion washing around Europe! If these multinationals were taxed on their income earned abroad the tax load on the average working man and woman in America would be substantially reduced.

Thank you.

Mr. Ashley. Thank you, Mr. Beter.

Mr. Beter. I would like to insert at this time, Mr. Chairman, a news item of where Russia did pay cash for the Kursk steel mill, which was mentioned this morning. This comes from the Los Angeles Times of April 4, 1974. They paid about $1 billion cash to Germany.

And, another item on the Occidental Petroleum fertilizer deal with Russia; this also from the Los Angeles Times of April 13, 1974, and I would like to make that a part of the record.

Mr. Ashley. Without objection, so ordered.

[The articles referred to follow:]

[From the Los Angeles Times, Apr. 4, 1974]

Russia Drums Up Trade

(By Joe Alex Morris Jr.)

Dusseldorf.—The Soviet Union is currently holding the biggest trade and industrial exhibition it ever put on anywhere outside its own borders in the fair grounds outside this capital city of the industrial Ruhr.

At a cost running well over $4 million, Moscow has taken over 20,000 square meters of exhibition space to show off some 8,000 products ranging from fancy furs to space capsules.

Behind this effort to jack up exports to West Germany is the Russian desire to trade for all the urgently needed technology it seems to think will transform the Soviet Union into a modern industrialized nation.

Whether Soviet logic is right or wrong is beside the point. The basic facts are:

—Soviet-German trade increased by 40% last year, but is still a miniscule 1.5% of West Germany's foreign trade.

—For every three rubles worth of West German goods the Russians import, they manage to sell only two rubles worth of exports back to West Germans most of it energy.

These figures stand in stark contrast with the dazzling panoply of Soviet riches which—during his visit here last year—Soviet party chief Leonid Brezhnev portrayed as lying there waiting for German exploiters.

Since Brezhnev's visit, one major deal has been concluded which again emphasized the apparent Soviet desperation to partake of the fruits of Western technology.

Shortly before the exhibition opened here, a consortium of three big German firms reached an agreement with the Soviet Union to build a huge steel mill in Kursk, which when completed will be the biggest direct reduction process mill in the world.

The Kursk project had been under discussion for many months. But it was blocked by Soviet insistence that it be financed with a low-interest loan.

The Bonn government, which had arranged similar financing for a gas pipeline between the Soviet Union and Germany a few years back, flatly turned the Soviets down this time. Unlike the United States, Bonn has no export-import bank prepared to offer loans at a 6% rate. Unless the government can justify a project such as the gas pipeline as of critical importance to the German economy, the Russians and others have to find financing on the open market.

This means rates of 11–12% today.

Instead, the Russians eventually decided to pay cash for the first stage of the project at a cost of about $1 billion. When completed, the Kursk mill will be the biggest single project the Soviet Union has bought abroad.

Not to be outdone by the Russians, the Chinese a week later signed an agreement with another German group to build a steel mill in Wunan. Like the Russians, the Chinese will pay cash—estimated at about $200 million—for the project.

When he was here for the opening of the trade exhibit, Soviet Dep. Premier Vladimir N. Novikov and West German Economics Minister Hans Friderichs conferred at length over a three cornered deal for more natural gas.

Under this arrangement, West Germany would receive gas from Russian fields, the Soviet Union would get gas piped to its southern industrial areas from Iran, and the Persians would get the money.

The Russians have also offered the Germans a chance to exploit huge Siberian ore reserves. Discussions are more concrete on the possibility of the West Germans building atomic power plants in the Soviet Union, and being paid off in deliveries of power.

Officials on both sides stress these plans are all tentative. "It is like a freshly hatched chick," Novikov said. "We must be particularly careful that it grows to become a strong hen."

Friderichs stressed that the Russians must continue to deal directly with West German industry. At best, he said the Bonn government could play a mediatory role.

"The political atmosphere is now ripe for better business," the West German economics minister said.

There are problems beyond the question of financing, however. One is the subject of Soviet good will, and questions about this were raised in the current energy crisis.

Last year, the Russians contracted to deliver 3.4 million tons of crude oil to West Germany via Bomin, an import firm. The ultimate user however claims it got only 2.9 million tons of oil or 17% less than contracted for.

Early this year, supplies were stopped entirely as the Germans and the Russians haggled over a new price. The Russians reportedly asked $16 per barrel, way above even the inflated energy crisis prices for Arab oil. Eventually,

the Russians came down to $12 a barrel, still too high but closer to the market price, sources here said.

The short deliveries in 1973 are explained here as caused by increased demands within the Soviet Union and from its Socialist allies. This appears unlikely, however, as the Russians have contracted to supply additional crude oil this year—at the new price, of course.

One case like this does not set a precedent. But the short fall in crude oil deliveries did not help calm concern of people here wanting to do business with the Soviet Union.

As for the future, the Russians are pushing their siren song harder than ever. Valentin Falin, Soviet ambassador to Bonn in a recent speech on the subject carried Brezhnev's tale of riches just waiting for eager German developers.

[From the Los Angeles Times, Apr. 13, 1974]

A Florida Official Criticized Occidental Petroleum's Fertilizer Deal With Russia

The tax-supported U.S. Export-Import Bank is making a $180 million loan to the Soviet Union to help pay for Florida phosphate mined by Occidental, Richard Stone, Florida secretary of state, said in Tallahassee. The Soviet Union will sell the U.S. nitrates in return for the phosphate. Stone said the "Russians have a perfect record, they have never repaid a loan," and noted that the 6% interest rate is far below the U.S. prime lending rate of 10%. Stone said the phosphate is needed and should stay in the United States. An Occidental spokesman in New York denied that taxpayer funds would be used in the loan. He said the fertilizer exchange was approved by Secretary of Commerce Frederick B. Dent.

Mr. Ashley. Mr. Beter, inasmuch as you acknowledge that the Export-Import Bank was started by Executive action during the administration of Franklin Roosevelt, I am a little surprised at your choice of the elephant, or a portion of the elephant. [General laughter.]

Mr. Ashley. Is it not a fact that the Eximbank funds its operations by use of short-term borrowings from the Treasury, which are refinanced by the sale of debentures in the private market?

Mr. Beter. They are now borrowing from the Treasury Department, as I understand it, Mr. Chairman, at a rate of interest much higher than they are lending to their clients.

Mr. Ashley. Where do you get that information?

Ours is just a little bit to the contrary. We are told that the Eximbank's overall cost of borrowing at the present time is 6.8 percent and that their lending rate is 7 percent.

Mr. Beter. They have just increased the lending rate to 7 percent, Mr. Chairman. But if you would look into the study made by Mr. Staats of the GAO, you will find that they are now—you say "overall." That takes in a lot of territory, because it also makes them go backward and pick up the averages. But at the present time, you will see that the General Accounting Office will confirm what I am saying.

They are actually borrowing at a higher rate from the Treasury, which is the taxpayers of the United States, and lending out at a higher rate. This is a recent study made by the General Accounting Office, and I would recommend respectfully, Mr. Chairman, that you get a part of this study to verify it.

As far as participation certificates are concerned, I would ask this subcommittee to ask the General Accounting Office to make an in-depth report, and they will be quite surprised with the outcome of the

bad debt situation as has existed for the last 5 years at the Export-Import Bank.

Mr. ASHLEY. How do you know that?

Mr. BETER. From my own knowledge, sir.

Mr. ASHLEY. Well, that is interesting. What contacts have you had with the Export-Import Bank?

Mr. BETER. This is from my own knowledge, sir.

Mr. ASHLEY. But have you had direct contact with the Bank?

Mr. BETER. This is from my own knowledge, sir.

Mr. ASHLEY. My question is, have you had direct contact with the Eximbank since you left it?

Mr. BETER. No formal contact. However, if you will ask the general counsel of the Export-Import Bank to give you a list of the bad debts and also check these against the General Accounting Office, you will see that I am correct, sir.

Mr. ASHLEY. Well, if you have not had direct contact, business dealings with the Bank, on what basis do you come by your information? I am just curious.

Mr. BETER. Personal knowledge, sir.

Mr. CONLAN. Mr. Chairman, could we not confirm his veracity by getting the General Accounting Office to get that information for us, and then we will find out whether he is correct or whether he is incorrect?

Mr. ASHLEY. We will get to that in due course.

In your statement, Mr. Beter, you claim that Eximbank only supports a few of the large corporate aristocracies. Our information is that in 1971, fiscal 1971, 76 percent of the transactions financed by the Bank were covering sales of small- to medium-sized transactions.

Mr. BETER. That is not true, Mr. Chairman. If you say Export-Import Bank, with all due deference to you, that also includes FICA, with which they have an overall master insurance agreement, 50–50 sharing of risks.

Now, if you are saying Export-Import Bank per se, you will find that it does not. It really finances and guarantees the big corporate aristocracy. This is common knowledge. It is an open secret at the Export-Import Bank. But if you bring in FCIA, it is true.

Mr. ASHLEY. Do you have any figures that you want to supply us?

Mr. BETER. I would recommend that you ask the Export-Import Bank, sir. I do not have those figures.

Mr. ASHLEY. You state that goods financed by Eximbank are not really manufactured in the United States but merely assembled and reshipped. Could you give us some specific examples of this?

Mr. BETER. Most of this, Mr. Chairman, has to do with trucks, automobile assemblies, also technological advances in computers which are sent over to the corporations in Europe.

Do not take my word for it. When the Export-Import people come here, I am only raising the question so that you could ask them, Mr. Chairman. With all due deference to you, this is one of the secret things that is going on in the Export-Import Bank today. It is the bulk of the manufactured goods that we are financing which are not produced totally within the United States.

Mr. ASHLEY. It is a fact, is it not, that certification is required from U.S. exporters with respect to U.S. origin of goods?

Mr. BETER. That is exactly right, Mr. Chairman. I might say that they have kept this away from Congress because of a fear of what Congress would do to the Export-Import Bank. This is a very well-kept secret in the Export-Import Bank, the bulk of non-U.S.-made products that goes into the making of the product.

I would respectfully ask the subcommittee to ask these questions when the Export-Import Bank comes before the subcommittee.

Mr. ASHLEY. I am, again, curious as to the evidence on which you base your statement that Eximbank money will be deposited in Moscow in connection with the Kama trucks. It is my impression that the Eximbank's money does not leave the United States.

Mr. BETER. That is exactly right, sir. In this case they made an exception.

Mr. ASHLEY. On what information do you have that?

Mr. BETER. My own personal knowledge.

Mr. ASHLEY. Well, that is in conflict with what we have received from the Bank, which is that the money will be disbursed directly to the suppliers through Chase Manhattan on advice from Moscow that the documentation is in order.

Mr. BETER. Yes, sir. When I wrote this in my book, some people would not believe me. So I would again ask that this question be directed to the Export-Import Bank.

Believe me, Mr. Chairman, I have no personal vindictiveness here as far as the Export-Import Bank is concerned. But I just want it to come back under the control of Congress, because I remember——

Mr. ASHLEY. Now, Mr. Beter, let me ask you this: You said that the Chase loan was guaranteed by the U.S. Government?

Mr. BETER. No. The Chase part is guaranteed indirectly through the Export-Import Bank, because it goes through the Bank of Moscow.

Mr. ASHLEY. Well, I have been advised that there is not any such Government guarantee at all.

Mr. BETER. There is, sir. There is a guarantee; otherwise, Chase would not have made the deal.

As I was saying, Mr. Chairman, in 1971 when I represented Governor Docking before the Senate Banking and Currency Committee in his confirmation on his appointment by President Kennedy, we went to see Senator Robertson of Virginia. This may answer a question that was propounded this morning by Mr. Mitchell. Senator Robertson directly told me and Governor Docking that the Export-Import Bank belonged to the Senate and House Banking and Currency Committees, and if we found any irregularities going on in the Export-Import Bank, that Senator Robertson must be told, as well the the Chairman of the House Banking and Currency Committee, since he thought that the House Banking and Currency Committee and also the Senate Banking Committee was the father of the Export-Import Bank.

As a result of that mandate given Governor Docking and myself, we reported to Senator Robertson some of the things that had been going on in the Export-Import Bank. Specifically, we reported the military loans that were going on by Export-Import Bank, among other things.

Mr. ASHLEY. If my colleagues would oblige me one additional moment or two; Mr. Hurst and other panelists, in hearings this morning the issue was raised as to whether Eximbank was not, in effect, competing with private capital.

A case in point was credit for oil-producing equipment for exports to Norway. It was contended that the private banks would readily have financed this and other similar transactions at the prevailing market rates; that is, nonconcessionary rates; and that purchasers would agree to such financing, making Eximbank financing unnecessary.

I would like to have your comments on this. I think it is a very critical aspect of our hearings that we are going to be obliged to come to grips with. There is a real issue; a real issue is being made as to the necessity of Eximbank financing, of the duplicatory function that is alleged the Bank is providing.

What would be your comment on that?

Mr. SPANG. Mr. Chairman, in the North Sea there is a mammoth project, and I think the record will show that Eximbank's role in that is a very small part, less than 10 percent of the total, and the other 90 percent privately financed. So I think that is what he is referring to, oil-drilling equipment, that refers to the North Sea oil development?

Mr. ASHLEY. Yes. That was the case that was mentioned.

Mr. Hurst, in your testimony you seemed to be speaking for the ABA, fairly unequivocal in your assertion that the Eximbank is not competing with private lending institutions; and, indeed, of course, if it were, it would be contrary to the law.

Can you amplify on your statement?

Mr. HURST. Yes, I would be happy to, Mr. Chairman.

That is correct. Our own experience in my bank and with my associates in the other banks is certainly to that effect. I have no knowledge of this Norwegian transaction that was referred to this morning, and I would agree with Mr. Spang that anything that we have done in the North Sea, actually, the Export-Import Bank has not played a major role in that at all.

The Export-Import Bank assistance in export financing, if you will, or participation, is important on two counts. No. 1, where we are in a very competitive situation with other export credit facilities available in the competing countries, it is important to have the Export-Import Bank portion financed at their admittedly lower rate of 7 percent and averaged in with our private rate for an overall cost which enables us to be competitive.

The other area is that very often the Export-Import Bank is able to take the longer maturities which lie outside the maturities that the commercial bank can extend. So in those two areas they are vital, and they do not compete with the private banking system.

Mr. ASHLEY. Do the rest of you gentlemen have anything to add on that?

Mr. WOLFE. Mr. Chairman, if I could just add one thing. The banking industry in this country was, perhaps 25 years ago, centered in the major financial centers. I think today you are finding industry spreading across the country. You are finding corporate headquarters moving into new areas, so regional banks are using the Export-Import

Bank as a basic pivot for what they are doing. So if you could hear from one of our regional banks, Mr. Alifano, it might be of some interest in this connection.

Mr. ALIFANO. Mr. Chairman, we have had absolutely no involvement in the North Sea at all. I can comment, however, on our manufacturing exporters in the Pittsburgh-Ohio region.

We have been financing U.S. exports for, oh, I would say 7 years now with increasing frequency over the last 3 or 4. There is no question that we could not extend repayment terms which the world markets are demanding on a competitive basis without the assistance of the Export-Import Bank, nor could we, of course, supply funds at the Eximbank rate on a competitive basis. We could not continue to finance U.S. exports from our region on a competitive basis without the assistance of the Export-Import Bank. No question in my mind.

Mr. FRENZEL. Could we identify the last speaker?

Mr. ALIFANO. Yes. Jerry Alifano of the Pittsburgh National Bank.

Mr. ASHLEY. Mr. Frenzel.

Mr. FRENZEL. Thank you.

I would like to ask the most recent speaker, Mr. Alifano, if he would comment on the statement made by Mr. Beter about the size of the industry that you are serving with your export loaning program.

Mr. ALIFANO. Yes, sir. I do not know how to break it down for you. We are very active in exporting. We have financed roughly 37 exporters in our region over the last 3 years that we did a review on. If you take the sales figures, there is about 60 percent of the exporters, of the 37 exporters, in the sales range of $59 to $200 million, and the balance being the very large corporations headquartered in our area.

However, I think it is necessary to go beyond that in looking at the beneficiaries of export financing. For example, I am forced to name a few companies here that do take turnkey projects: United States Steel, Armco Steel, et cetera, Westinghouse Electric. A great percentage of the product under those turnkey contracts are supplied by companies much, much smaller in sales level. The current China steel program, the steel programs in Korea, et cetera, most of that supplier are coming from our region of much smaller companies.

Mr. FRENZEL. Thank you. I wish, then, that you would also comment on a statement that much of the export financed under Eximbank is staff coming in from outside, which is assembled here and shipped.

Do you find that is true in your lending experience?

Mr. ALIFANO. No, sir. I would have no reason whatsoever to think so.

Mr. FRENZEL. It does not seem to occur in my district either.

Mr. Beter, your testimony is so exciting it is hard——

Mr. ALIFANO. Could I add, Mr. Congressman, one point on your question. If you are familiar with the steel machinery manufacturing industry, in the period 1969 through the current time, you are aware that the American steel industry has not been, to say the least, in an expansion phase of its productive capacity.

As a result, a number of companies in our region which are dependent on the steel industry encountered severe financial difficulties during this period. The only reason they have been able to survive, frankly, is the volume of international orders that they have received.

The production obviously had to be done within the United States, and it was imperative that we have the assistance of the Export-Import Bank in order to achieve those orders.

Mr. FRENZEL. Thank you. Now you have given me a new idea, and I will depart from the exciting testimony. I wanted to explore it and come back again.

Do those manufacturers in your region, insofar as you are aware, compete with foreign manufacturers in export markets, and do they find the existence of credit terms by their foreign competitors to be equal or better than ours?

Mr. ALIFANO. In certain cases, yes. It depends on the product line, the aggressiveness of the foreign competition, and so forth. Our record is that on every three export financing proposals that we submit for competitive bidding worldwide, we are successful in receiving one order.

Now, the two lost orders can be because of either American price or because of more attractive financing terms abroad. I would say that the combination of the Eximbank private financing tends to make available an attractive interest rate. Where we have run into difficulty has been on the lengthening terms which I feel the Eximbank has been rather adamant on not going out too long.

Mr. FRENZEL. Thank you.

Now to get back to Mr. Beter, you are sort of the odd man here against who everybody else who thinks Eximbank is just wonderful; and so I would ask you to comment as you will on some of the responses that Mr. Alifano has made, if you wish.

Mr. BETER. Mr. Congressman, we live in a new age. We live in the age of multinational corporations. Many of the multinational corporations have affiliates in Europe. They are very large. They have the Eurodollar available to them. These are American-owned corporations in Europe who are exporting to the United States to their mother corporations. They assemble these things, and then they ask for Export-Import financial assistance.

So these are not really European foreign corporations. These are children of the mother corporation who are doing the actual building of certain components of products in Europe and bringing them here.

We are now in about the 15th to the 20th year of the multinational giants; so therefore, one of the things that is facing the Export-Import Bank—and I am not saying this critically. I am saying that Congress has made a policy that we shall finance American-made products.

Question: Products manufactured abroad by American corportions, are they American-made products, or should we change the policy of Congress and say we will allow certain percentages of foreign-made ingredients in our products.

For example, when I went for the Bank in 1962 to inspect a hotel in Beirut, even though we financed that hotel, Intercontinental Phoenicia Hotel, I found out when I inspected the hotel that the Otis elevators came from Britain, and they were assembled in north Africa, and sent to Beirut. These are the types of things that you do not find out unless you get down into the details, because to generalize is to omit.

These products are made abroad by an American manufacturer and

sent here, but by doing so they have exported jobs. That is my beef. But it is up to Congress whether or not they want to change the policy of American-made products.

Mr. FRENZEL. Thank you for your contribution. I find that in my district with manufacturers down where I live that sometimes a little foreign production is very helpful. It allows us to get into the market and understand the problems, and that in turn stimulates production in my district, which builds jobs. I sure as heck do not object to that. I would like to encourage it.

Mr. Chairman, I have run over.

Mr. ASHLEY. Mr. Conlan.

Mr. CONLAN. Yes. Are we going to finish here or are we going to come back?

Mr. ASHLEY. If the gentleman would like additional time, I would be very happy to come back.

Mr. CONLAN. Let me ask you a couple of questions. Have these multinationals abroad, among the billions of dollars that you have indicated that they have made and have kept abroad without being subject to American taxes, have they moved into the gold market at all with those dollars?

Mr. BETER. Yes, they have. They have been in the gold market, and I say illegally, for the past 10 years; but, especially heavy this past month under "color of authority." They have been buying gold like it was going out of existence.

Mr. CONLAN. I am new to this subcommittee and I just raised the question because perhaps these corporations are not as hard up as we are led to believe in some areas if they can move into holding gold for investment and speculative purposes rather than using it for lending purposes.

I do not know. I would like some more information and perhaps some of the bankers could give me some more information along that line after we adjourn.

Mr. Spang, I did not understand why Export-Import was committed to 10 percent of the North Sea project. Why did it go into it at all, since if 90 percent of private money could cover it, why could not 100 percent cover it?

We had some testimony this morning that said Eximbank should be using its resources elsewhere.

Mr. SPANG. I am not familiar with the details of the exact loan arrangements that were made there, but very often it is desirable and useful to arrange for a consortium when you are making a very large loan, to have joined with you other banks, other national banks, and even a bank with the U.S. Government's label on it. It gives substance to the overall claim against the borrower in case of difficulty. Whether that was the motive, I do not know.

Mr. CONLAN. It sounds reasonable on the face, but I do not know whether our Government has been very effective in collecting its debts abroad.

Mr. SPANG. Yes, the U.S. Government has been effective in bringing the right kind of pressure to bear on borrowers who are in default, and also the World Bank has been very helpful in this respect. I spent 11 years in settling debts of this character.

Mr. CONLAN. Mr. Chairman, just one final question or observation here. If we had more time I think some interfacing between these gentlemen and Mr. Beter as devil's advocate would have elicited more information for us; and I think we do need some cooperation.

I think Mr. Beter has made some serious charges and raised some serious questions; and I for one on this subcommittee would like to see that we do get more information and dig into this.

Mr. ASHLEY. I think the point is well taken, Mr. Conlan. I would suggest that members that want specific inquiries answered by the Eximbank officials communicate with Mr. Jasinski.

I would also say that if there are further questions that any member of the subcommittee has, if he will direct them to the panel, I am sure that they will be pleased to respond for the record.

You have been a very fine panel. We appreciate your testimony very much indeed. You have been most useful to us. The subcommittee will stand in recess until 10 a.m. tomorrow morning.

[Whereupon, the hearing in the above-entitled matter was adjourned at 3:30 p.m., to be resumed the following day, Wednesday, April 24, 1974, at 10 a.m.]

INTERNATIONAL ECONOMIC POLICY

WEDNESDAY, APRIL 24, 1974

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE COMMITTEE ON BANKING AND CURRENCY
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:25 a.m., in room 2128, Rayburn House Office Building, Hon. Thomas L. Ashley (chairman of the subcommittee) presiding.

Present: Representatives Ashley, Rees, Young, McKinney, Frenzel, and Conlan.

Also present: Representative Matthew J. Rinaldo of New York.

Mr. ASHLEY. The subcommittee will come to order.

This morning our hearing on international economic policy and on pending legislation dealing with two of its instruments, export control and export credit, will take a very special focus. We will hear from expert, independent public witnesses who will concentrate on the economy of the Soviet Union, its commercial and economic relations with the United States and other advanced industrialized nations, and on the prospective impact of these relations, including the international transfer of technology on our national security and economic stability and growth.

Our first witness this morning will be Dr. Herbert S. Levine, professor of economics at the University of Pennsylvania and senior research consultant, Stanford Research Institute. Dr. Levine has special professional competence in the analysis of Soviet economics. Each of the members of the subcommittee has been provided with a résumé of his experience.

So, Dr. Levine, please proceed with your oral summary of the paper that you have provided the subcommittee.

STATEMENT OF DR. HERBERT S. LEVINE, PROFESSOR OF ECONOMICS, UNIVERSITY OF PENNSYLVANIA

Dr. LEVINE. Thank you very much, Mr. Chairman.

I would like to express my gratitude to the Stanford Research Institute, where I am a research consultant, for support in much of the work that I have done in regard to technology transfer to the Soviet Union.

My paper has five parts. Rather than read the paper, which is too long, I will briefly discuss the individual parts and pay particular attention to one of them.

The first part gives a brief history of the U.S.-U.S.S.R. trade relations, going back to the beginning of the 19th century. The second has some aspects of why the Soviets are interested currently in expanded economic relations with the United States. The third part has some of the outstanding issues and discussions about U.S.-U.S.S.R. trade and economic relations. The fourth part, the part I would like to concentrate upon, discusses the ability of the Soviet Union to import and to master advanced technology, what has been the historical record and the current institutional problems in this regard. And fifth, some brief comments on U.S. interests.

In the brief history of U.S.-U.S.S.R. trade relations, what I have tried to say is that the current explosion in the last 2 years of U.S.-U.S.S.R. trade should not obscure the fact that trade relations between the United States and Russia go back a long time. Beginning in the 19th century, there was already substantial trade between the two countries and in fact, a most-favored-nation treaty was signed in 1837. It is of interest that this treaty was abrogated in 1911 by the Taft administration in an unsuccessful attempt to pressure the czarist government into a policy of more humane treatment of Russian Jews.

After the war and the Communist revolution, the first major U.S. economic involvement in the Soviet Union was the distribution of $20 million worth of grain to the Russian people under the American Relief Administration directed by Herbert Hoover.

Then I talk about the concession policies that Mr. Sutton, on my left, is a specialist on; trade developing during the early 1930's; the fact that U.S. exports to the Soviet Union increased sharply in the beginning of the 1930's; and that purchases by the Soviets during these years when the U.S. economy was in a major depression did win rather powerful support in the business community for U.S. recognition of the Soviet Government, which came in 1933.

In the following year, the Export-Import Bank was established with the expressed purpose of financing United States-Soviet trade and in the following year, that was 1935, MFN status was granted to the Soviet Union. Again, a trade agreement was signed between the two countries.

Following World War II, the cold war period, of course, was inimical to United States-Soviet economic relations. Professor Holzman has worked a great deal on economic warfare, and I imagine that he might be talking to this point.

The dimensions of the growth of U.S.–U.S.S.R. trade in the last few years are rather remarkable, reflecting both the previous political suppression of trade between the two countries in the postwar period and the recent change in the political atmosphere encouraging the development of trade and other forms of economic relations. The volume of trade hovered in the 1960's, rarely going above $100 million—that is exports plus imports—except for the year 1964, with its large Soviet importing of grain after the 1963–64 harvest.

But really the explosion starts, say, about 1970, an increase of almost 80 percent in that year, and then a tripling in 1972, and then another doubling in 1973. The Soviet official figures on trade between the United States and the U.S.S.R. have just come out, and at the current exchange rate, it is about $1.5 billion for 1973.

Now, much of this increase in the last 2 years is a result of the large Soviet grain and soybean imports, which were contracted for in the

summer of 1972. These came to somewhat over $400 million in 1972. The estimate of the Department of Commerce—the Russians have not published these figures—is that the Soviets bought actually between $800 and $850 million worth of grain and soybeans in 1973.

But also there has been a substantial increase in U.S. exports of machinery to the Soviet Union. These came to about $62 million in 1972 and about $200 million worth of machinery was exported by the United States to the Soviet Union last year. This latter figure alone was more than the total U.S.-U.S.S.R. trade turnover in 1970, only 3 years previous.

Also, Soviet exports to the United States increased by 50 percent in 1972 and more than doubled in 1973, attaining a level of over $200 million. Interestingly, Soviet exports to the United States, included last year $75 million worth of oil. However, while in the years 1960 to 1971, Soviet imports from the United States were commonly twice the level of its exports to the United States, in the last 2 years, the Soviets have imported more than five times as much from the United States as they have exported to the United States.

The second part of my paper concerns Soviet interest in expanded economic relations. Clearly, there are many reasons, political, military, economic, that might be adduced for the manifest increased Soviet interest in expanded economic relations with the United States. Since I earn my living as an economist and presumably I was asked to come here as an economist, let me concentrate on just the economic reasons.

One can handle the periodization of Soviet growth in the postwar period in a number of different ways, and you can get a somewhat different picture. However, if you handle it, I think, carefully, you can show a very interesting picture of periods of succeeding decreases in the rates of growth.

The periods are: 1950 to 1958—starting with 1950, so that you get rid of those immediate postwar periods where you have rapid reconstruction—1950 to 1958; 1958 to 1967; and 1967 to the current period, that is, through 1973.

Using Western recalculations of Soviet growth of GNP, in the first period, 1950 to 1958, the rate of growth is 6.4 percent per year; in the second period, 1958 to 1967, 5.3 percent per year; in the third period, 1967 to 1973, 3.7 percent year.

Now, official Soviet data also show the same trend. The level is much higher, but the trend is the same: 10.9, 7.2, and 6.4 percent.

Now, the interesting thing is that, while these rates of growth of output, were declining, the rates of growth of inputs into the economy of labor and capital have remained amazingly constant throughout this 23-year period. That is, the regime was able to maintain the rates of growth of inputs of labor and capital, despite the demographic problems of World War II, despite growing pressure to hold back some of the investment; the capital stock continued to grow almost at the exact same rate throughout the whole period; a slight decline in the recent period, but that is not the problem. The problem is that what they are getting out of these inputs has been growing at a decreasing rate.

If you look at what economists call total factor productivity—you get in trouble if you look separately at labor productivity and sep-

arately at capital productivity—but if you look at total factor productivity, you observe that in the period 1950 to 1958, total factor productivity was growing at a rate of about 1.7 percent per year; 1958 through 1967, 0.7 percent per year; and in 1967 through 1973, actually at minus 0.7 percent per year, that is, inputs were growing more rapidly than outputs in the economy.

This, I think, is what has given such grave concern to the leaders of the Soviet Union. It is not that the rate of growth of output is at any crisis stage; it is still rather respectable and, in terms of their own measures, rather high in comparison to other countries. But it is the fact that the trend is declining, and that it is productivity growth that is absorbing or accounting for the entire decrease of the rate of growth of output.

Normally in industrial countries, outputs grow more rapidly than inputs. Thus there is sort of a PR problem that casts a poor reflection on the Soviet economic system. But, I think of more substance, it is seen as an erosion of the effectiveness of the traditional Soviet growth model, which, in a somewhat oversimplification, called for the Soviet authorities to concentrate on increasing supply of inputs into the economy, with the assumption that this would lead to a concomitant increase in output.

Furthermore, the decline in total factor productivity casts its shadow ahead. If this decline is not reversed, and the Soviets seek to achieve economic growth through the maintenance of, say, this 9 percent rate of growth of capital stock, then the share of investment in GNP will, by the end of the 1970's, reach a level of 50 percent. Given the realities of the political situation in the Soviet Union today, the clamoring of the Soviet elite for some return in terms of material goods and services, a higher level of consumption, I consider this to be a political reality and not just window dressing, a rate of investment of 50 percent is just totally unacceptable to the Soviet leaders.

Now, there are a number of things they can do about it. Economic reform, they have tried that. Problems arose; it does not appear to be very effective. Some groups are calling for further economic decentralization, but, apparently, the Soviet leaders feel, and many economists feel, that radical reform would involve economic risks. Also, the specialists on the Soviet system argue that it would involve political risks that the regime is not willing to assume at the present time.

Instead, they are turning once again to the outside world, as Russian governments in the past, and even before the revolution, have done, for another infusion of contemporary technology from the more advanced countries.

The next part of my paper is devoted to some issues in U.S.-U.S.S.R. trade and economic relations. Let me just mention them briefly.

Problems associated with the administration of Soviet trade. The bureaucracy, the Ministry of Foreign Trade bureaucracy, that handles these problems. Second, problems related to state trading. Many American businessmen are concerned about dealing with what they conceive, at least, to be a monolithic state bureaucracy.

Third, American businessmen, if they are going to make economic decisions rather than political decisions about their business investments, need a lot of information on which to base profitability calculations. The Soviet Government does not publish and does not give out

a lot of the needed information, and some American businessmen feel that some of the needed information the Soviet Government does not even have. This is, I think, a serious issue.

The other issues are familiar in the literature. In the 1972 trade agreement: the arbitration issue, patenting and licensing. And, of course, a major issue for this subcommittee is the issue of credits. The recent change in the Eximbank's rate of interest from 6 to 7 percent takes away some, but clearly not all, of the problem of the question of are we subsidizing the interest rate given to the Soviet Union.

It is interesting to note that the Japanese loan announced yesterday, the $1 million loan, came in at 6⅜ percent, somewhat below what the Eximbank would now charge.

The problem of special treatment for the Soviets is a very dangerous issue. There is the fear that the Eximbank when it lends directly, even though it only lends 45 percent, with another 45 percent to come from the market, and the other 10 percent paid by the Soviets, that the Eximbank rate of 7 percent will establish the market rate in the United States and that, therefore, even from the market the Soviet Union will be getting a lower rate than other customers of the United States.

Also, it has already been reported that the Eximbank has not insisted upon receiving the usual balance of payments statistics and independently determined geological surveys and financial statements in its considerations of loans to the Soviet Union. This special treatment has raised some serious questions in the minds of many.

Another obvious question with regard to credit is the creditworthiness of the Soviets. In my paper, I have some analysis of this. I think the most important issue that I raise here is that this past year has changed a lot of the parameters in these considerations. First, there is the increase in the price of oil, which Bob Campbell will probably talk about. A problem here is how many years down the road can we expect the Soviets to be exporting oil. But certainly that hard currency price has come up dramatically.

And second the price of gold in 1 year has risen from $70 an ounce in the free market to $175 an ounce. The Soviet gold stock is estimated at about 2,000 tons which meant that in 1972, at $70 per ounce, this was worth $4½ billion; and an annual production of 300 tons, which meant that the annual flow was worth $0.7 billion. With the present price of gold at $175 an ounce, the Soviet gold stock is now worth $11.2 billion, more than a doubling, and the annual production flow is $1.7 billion.

The reports are that the Soviets did sell almost 300 tons of gold last year. The usual Soviet hard currency deficit that is estimated is about $1 billion, so that Soviet gold sales alone from current production might cover this. There is a possible problem of the Soviets spoiling the market. This is a problem that the South Africans are very much aware of, and apparently they have held back from the market in the past 2 years.

The final issue that I cover in the paper is MFN. Let me leave that to further discussion.

The next part of my paper concerns the ability of the Soviet Union to import and master advanced technology. I am currently engaged in a multiauthor study of a comparison of modernization in Japan and Russia from the middle of the 19th century to the current day.

Both these countries were very active borrowers of foreign technology. Indeed, economic rationality calls for a latecomer on the scene of industrialization to use what is available in the world, rather than to go through the whole re-creation process of trying to do it yourself.

The obvious and sort of noteworthy difference, though, between the Russian and the Japanese experience is that the Japanese have over time learned how to master modern technology and how to add to it. It is not yet clear whether they can create new technology themselves, but, certainly, this engineering innovation that they are so good at has paid off handsomely for them in their competitive situation, whereas for the Russians it has not.

What I do in the paper is look back over a long period of Russian history, saying that, at the risk of gross oversimplification, it might be said that all of modern Russian history, from the middle of the 15th century to the present day, has been dominated by the need perceived by Russian leaders to catch up with the more advanced nations of the West. An important part of this catching-up process has been the importing and employment of advanced foreign technology. It is seen clearly in the period of Peter the Great, the beginning of the 1700's. And it is seen clearly in the 1890's under the leadership of the Minister of Finance, Count Witte, a very large influx of capital especially from France and Belgium accounting for almost 50 percent of all new capital invested during the industrialization spurt of the 1890's. In 1900 foreign companies owned more than 70 percent of the capital in mining, metallurgy, and machine building in Russia.

As a result of World War I, and the Communist revolution, the Russians lose a lot, especially of human capital, in regard to the mastering of foreign technology. As Mr. Sutton has written in his books, there was borrowing of foreign technology in the 1920's, although the quantitative importance of this program is a matter of debate. But certainly, the number of business arrangements with foreign concerns was larger than has commonly been believed.

The period of the 1930's, the first 5-year plan saw tremendous efforts in acquiring foreign technology, less so after the policy of nondependence was really pressed by Stalin toward the end of the 1930's. And then the current period, again, is one of turning to the foreigner, trying to catch up.

In both the 1890's and the 1930's, and also in the period of Peter the Great, it is interesting that foreign goods, machinery, and technology were paid for primarily through the export of Russian raw materials, grain, lumber, and oil. This, of course, is true to a great extent currently, except for the grain.

In these past periods of importation of advanced technology, including the period of Peter the Great, the Russians were able, within a compressed period of time, to approach contemporary economic levels in the West and, to some extent, even the levels of contemporary technology in the West. But in the long run—and this is the important point—after a period of time, as the advanced nations of the West continued to develop new technology, the Russians were not able to maintain their dynamism and were not able to maintain their relative position, and they fell back.

A full identification and analysis of reasons why this is so is beyond the scope of my remarks here. But let me just touch on some of the points.

Western scholarship on the Soviet economy has pointed heavily to the incentive system, the rewards system. Reforms were introduced in 1965. The rewards are now in flux. But, still, the essential nature of the rewards system is a target reward system. Whether the target be output or sales or it be profit, it is still a target. Once you are rewarded in relationship to your attainment of a target, you have two obvious courses open to you: one, perform well; two, make sure that target is low. That second aspect is what is so detrimental to the innovational process, to the continuing of technical change. The reward for the risk incurred—that is, that has to counteract the risk of loss—just is not high enough in the Soviet reward system, even under the current reforms, to compensate for the risks in innovation. There is much discussion in the Soviet Union about how to get around this problem, but nothing very effective has been introduced so far.

A second factor involves the arrangements of bureaucratic organizations, and this is what makes the czarist period and the Communist period so similar. Both societies, the political aspects, the economic aspects, were bureaucratized and decisions were made through the bureaucracy.

One of the important problems here is that the innovational process, as in the phrase of the economist Schumpeter, is a process of "creative destruction." The new is created and the old is destroyed. In a bureaucratic situation, the old have power to protect themselves much more effectively against the new than is true of a less centralized, less bureaucratized situation. The Russians under the czars suffered from this, and the Russians under the Communists suffer from this.

There are other aspects of these bureaucracies that are in the paper, but just let me—since my time is running short—just let me mention one more point which I think is important that comes out of the comparison with Japan.

Japan imported foreign technology to a great extent for purposes of foreign competitiveness. They used foreign technology and goods, and they then tried to sell abroad. This meant they had to keep current with the technology. The Russians, again, under the czars and certainly under the Communists, have borrowed foreign technology primarily for use in the domestic economy, so that once the technology is in place, they are no longer under the competitive pressures to keep current with the outside world.

One of the important things in the current trade arrangements or discussions in this regard are the buy-back arrangements that are being discussed, especially in manufacturing goods. That is, if the foreign company is going to buy back part of the output and then try to market it in the Western World, then it will feel the competition of the current technology in the outside world. Unless the foreign company is not acting rationally in its own interests, it will insist upon some sort of control or influence on the production inside of Russia, which may keep the Russians more current with world technology. But in the past, this has been their big problem.

What are U.S. interests in this? Very briefly, it would be lovely to sit back and say, well, the market works in our society. If the market shows that a business deal is profitable, then our conclusion is that this is socially desirable. But it is not so clear that we as a Nation stand

to gain a great deal economically from these relationships. Unfortunately, as Karl Marx himself might have said, what is good for Occidental Petroleum is not necessarily good for the country.

What is it that we stand to gain in these economic relationships? Well, one, there is no reason to believe, at least from our point of view, that this will be a balanced, in any sense, barter. The Soviets, although they do not like to talk in these terms, have demonstrated that they are willing to run a deficit with us, hard currency deficit, and a surplus, say, with the English and the Japanese, and work a trilateral arrangement that way. Therefore, we get hard currency that we can then use to buy goods in Western Europe, that we do find desirable from our point of view.

Another thing, the Russians are trying to develop some goods that they can sell to us. Hydrofoil boats, which are very nice, if any of you have ever traveled in them; that might have a market in the United States. But I do not think that we stand to gain economically in a balanced way from their exports to us.

There is, of course the possibilities in the longer run that we may gain significant additions to our energy supplies. That is an issue that, obviously, has to be discussed.

Finally, there are the political issues and the issue of détente. While normalization of relations and increased economic relations do not guarantee peace between nations—history clearly demonstrates this—I think it can be argued that they increase the chances of peace.

This is perhaps especially true when an essential element of the economic relations involves the international transfer of technology, because the process of international transfer of technology is basically a people process. It will not be sufficient for the Russians to buy blueprints or machines or even turnkey plants. They will also have to import people who are familiar with the advanced processes and who can help guide its implantation.

Increased human contacts between Russian economic decisionmakers and engineers and U.S. businessmen and technologists can contribute, possibly, toward decreasing tension between the two countries. They also might make a modest contribution toward the opening up of Soviet society.

The Soviet desire for expanded economic relations within an atmosphere of détente, I think, makes it possible that there will be a certain increase in our political bargaining strength vis-a-vis the Soviets. In the heat of the Mideast crisis, this may not have been readily apparent, but in time—and I think it is beginning to come out—that it will become agreed that Soviet behavior in this crisis was to some extent moderate.

I think in our economic relations with the Soviets we should be hard bargainers. We should pursue our own interests in economic issues and political ones. But I feel personally that the commitment to détente should be preserved. I feel it in the interest of us all that this be done.

[The paper referred to by Dr. Levine throughout his statement entitled, "An American View of Economic Relations With the U.S.S.R." follows:]

"An American View of Economic Relations With the U.S.S.R."; [1] by Dr. Herbert S. Levine, University of Pennsylvania

I. INTRODUCTION

It is by now commonplace to point out that trade between the United States and the Soviet Union has grown rapidly in the last few years. But this recent upsurge of trade should not obscure the fact that trade relations between the United States and Russia go back a long time.[2] At the beginning of the 19th century, there was already substantial trade between the two countries, and in 1837 they signed a mutual Most Favored Nation (MFN) tariff treaty. By the period of the first world war, the United States was an important supplier of equipment, especially agricultural equipment, to Russia. It is also interesting to note that in 1911, the United States government abrogated the aforementioned MFN treaty in an (unsuccessful) attempt to pressure the Tsarist into a policy of more humane treatment of Russian Jews.

Note: Paper presented at the 78th Annual Meeting of the American Academy of Political and Social Science: "USA–USSR: Agenda for Communication," Philadelphia, April 5–6, 1974.

After the war and the Communist Revolution, the first major US economic involvement in the Soviet Union was the distribution of $20 million worth of grain to the Russian people by the American Relief Administration under the direction of Herbert Hoover. American firms played a fairly active role, in the 1920's, in the Soviet program of foreign concessions. Such names as Harriman, Hammer, and Ford, among others, were involved in economic concessions granted by the Soviet government. In the early 1930's, U.S. firms were prominent in the surge of Soviet economic relations with the West which came with the first five year plan.[3] U.S. exports to the Soviet Union increased sharply and large purchases by the Soviets during these years when the U.S. economy was in a major depression won powerful support in the business community for U.S. recognition of the Soviet government. This came in 1933. In the following year, the Export-Import (Eximbank) was established with the direct purpose of financing U.S.-Soviet trade. And in the year following that (1935), the United States granted MFN status to the Soviet Union, and a trade agreement between the two countries was signed.

The cold war period, after the second world war, was inimical to US-Soviet economic relations. The period was dominated by reduced interest in such relations on the Soviet side, and by trade restrictions on the US side. The U.S. government put restriction on the types of goods (related to "national security") which American firms could export to the Soviet Union and to Soviet-bloc nations, and arranged for similar export restrictions to be instituted by other NATO nations and Japan. While the adherence to this policy by other western nations and the policy's effect on the growth of the Soviet economy are matters of debate, there is no doubt that the policy did contribute significantly to the low level of US–USSR trade through the fifties and mid-sixties.

The current rise in US-USSR trade had its antecedents in various periods of thaw in the 1950's and early '60s when attempts were made to reduce restrictions and to improve US-Soviet economic relations. But it was not until the mid-sixties that substantial progress in this direction was made. Starting at that time, many items were removed from the export control list, and in 1967 and 1969, East-West trade bills, with MFN recognition (by then already granted to Yugoslavia and Poland) were introduced in Congress, but were not passed. Negotiations undertaken in 1971 culminated in preliminary agreements on certain trade issues at the Moscow Summit in May of 1972, in the Trade Agreement worked out between US and Soviet representatives in October 1972, and in

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[1] The author is indebted to the Stanford Research Institute (Washington, D.C.) and the Russian Institute (Columbia University) for research support.

Some of the material presented in this paper was presented earlier in testimony before the House Committee on Science and Astronautics, and in the magazine *Enterprise*, vol. 23. No. 3 (Fall, 1973).

[2] Edward T. Wilson, et al., "U.S.-Soviet Commercial Relations," in Joint Economic Committee, *Soviet Economic Prospects for the Seventies*, GPO, Washington, D.C., 1973 (Hereafter: SEPS), p. 638. Much of what follows in this section is based on this article.

[3] The relevance of this to the international transfer of technology will be discussed below.

several protocols relating to economic relations signed at the Washington Summit in June 1973.

The actual dimensions of the growth of US-USSR trade in the last few years are rather remarkable, reflecting both the previous political suppression of trade between the two countries in the postwar period, and the recent change in the political atmosphere encouraging the development of trade and other forms of economic relations.[4] The total volume of US-Soviet trade during the 1950s was below $50 million per year, and during the period 1960–68 was below $110 million per year with the sole exception of 1964 when the trade turnover soared to $184 million (Soviet imports, $163 million) as a result of massive Soviet grain purchases (trade volume fell to below $100 million the following year). The rapid climb in trade began in 1969, when the turnover grew to $177 million from a level of $99 million the previous year, an increase of almost 80 percent. The trade volume grew moderately in 1970 and 1971, and then tripled in 1972 to a level of $642 million, and then doubled again in 1973, reaching a level of $1,405 million. Much of the increase in the last two years is a result of the large Soviet grain and soy bean imports from the United States which were contracted for in the summer of 1972. These came to about $420 million in 1972 and $800–850 million in 1973. But a substantial increase in US exports of machinery to the Soviet Union has also been of importance. In 1971 the Soviet Union placed orders for $239 million worth of plant and equipment in the United States, and in 1972, for $465 million worth.[5] These orders gave rise to actual US exports of machinery to the Soviet Union of $62 million in 1972 and about $200 million, in 1973.[6] This latter figure alone was more than the total US-USSR trade turnover in 1970. Also, Soviet exports to the United States increased by 50 percent in 1972 and more than doubled in 1973, attaining a level of $215 million (including Soviet exports to the US of $75 million worth of oil.[7] However, while in the years 1960–71, Soviet imports from the United States were commonly twice the level of its exports to the US, in the last two years they were more than five times as high (in 1964, the ratio was eight).

II. SOVIET INTEREST IN EXPANDED ECONOMIC RELATIONS WITH THE UNITED STATES

There are, clearly, many reasons, political, military, economic, that might be adduced for the manifest increased Soviet interest in expanded economic relations with the United States. I will restrict my discussion first of all to the economic reasons, and within that set to a limited subset of major factors.

The basic economic factor concerns recent Soviet growth and productivity. Dividing the postwar period into subperiods of decreasing growth of Soviet output (GNP), one observes a relationship of great importance. According to Western recalculations of official Soviet data, Soviet GNP grew at the following average annual rates:[8]

Years:	*Percent*
1950–58	6.4
1958–67	5.3
1967–73	3.7

(The official Soviet data show higher rates, but the same trend: 10.9%, 7.2%, 6.6%). However, while the rates of growth of output were declining, the rates of growth of inputs into the economy—labor and capital—were remaining almost completely constant over the entire 1950–73 period (a slight decrease in the rate of growth of the capital stock in the period, 1967–73). That is while the Soviet economic authorities were able, through the various means at their disposal, to maintain the rate of growth of the flow of labor and capital inputs into the economy, they were not able to maintain the rate of growth of output, the reason for this being a decline in the rate of growth of factor productivity. Indeed, when

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[4] Sources for the data which follow are: 1950–59: Leon M. Herman, "Soviet Foreign Trade and the United States Market," in Joint Economic Committee, *New Directions in the Soviet Economy*, GPO, Washington, D.C., 1966, pp. 943; 1960–72: John T. Farrell, "Soviet Payments Problems in Trade with the West," in *SEPS*, pp. 698, 693; 1973: Preliminary data, U.S. Department of Commerce.

[5] Farrel, *op. cit.* pp. 693.

[6] Preliminary data, U.S. Department of Commerce.

[7] *Ibid.*

[8] Sources for GNP data: Abram Bergson in *Problems of Communism*, March-April 1973: SEPS and Preliminary U.S. Government estimates.

a statistical comparison is made between the rates of growth of output and of combined labor and capital inputs, it is seen that total factor productivity grew at the following rates:[9]

Years:	Percent
1950–58	1.7
1958–67	0.7
1967–73	0.7

These data indicate a steady decline in the rate of growth of factor productivity. In fact in the most recent period, inputs into the economy grow more rapidly than does output, thus the negative rate of growth of factor productivity.

This decline in the growth of productivity has clearly been a matter of grave concern to Soviet leaders. The growth of factor productivity is a major source of economic growth in developed industrial economies. Its decline in the Soviet Union is seen as a reflection on the effectiveness of the Soviet economic system. But of more substance it is seen as an erosion of the effectiveness of the Soviet growth model, which, in a somewhat oversimplification, called for the Soviet authorities to concentrate on an increasing supply of inputs into the economy with the assumption that this would lead to a concommitant increase in output. Furthermore, the decline in factor productivity casts its shadow ahead. If this decline is not reversed, and the Soviets seek to achieve economic growth through the maintenance of the (9%) rate of growth of capital stock, then the share of investment in GNP will, by the end of the 1970s, reach 50%.[10] Given the realities of the political situation in the Soviet Union today and the importance being accorded consumption, such a rate of investment is totally unacceptable.

The conclusion from this is clear. Something has to be done to improve productivity in the economy. There are a number of factors that are of relevance in this regard. But for our purposes in this paper, clearly the role of technology and technical change is dominant. One of the major aims of the economic reforms introduced in 1965 was to encourage the growth of technology. It is obvious by now the results of the reform have so far been disappointing. Some, within the Soviet Union and outside in the West, argue that the reforms did not go far enough, that what is required for the reform to be effective is a significant increase in the degree of economic decentralization. But apparently the Soviet leaders feel that such radical reform would involve political and economic risks that they are reluctant to assume. Instead they appear to be placing major reliance on a program of importation of advanced technology and capital equipment from the developed industrial nations. The Soviets are especially (though not exclusively) interested in American technology. They have a high regard for the high level of American technology, both for real and imaginery reasons. That is, US technology is the world leader in a number of fields in which the Soviet Union is interested (eg computers, integrated circuits). But also the Soviets tend to regard the world in a bipolar sense and this biases them towards things American. Yet one aspect of this "two-giants" approach which is relevant in the borrowing of technology is the fact that the large scale of production usually found in the United States, but not so frequently in other developed countries, is appropriate to the Soviet scene.

III. SOME ISSUES IN US–USSR TRADE AND ECONOMIC RELATIONS

Before going on to an assessment of the potential Soviet success in improving the performance of their economy through the transfer of technology from abroad, let me indicate and briefly examine some of the salient issues in the current discussions of expanded US–USSR economic relations. These issues include: the administration of soviet trade, problems related to state trading, credits, MFN, and potential advantages of expanded economic relations. These are discussed below.

The administration of Soviet trade

At the top of the Soviet foreign trade system stands the Ministry of Foreign Trade—primarily an administrative and regulatory body which does not normally directly engage in operational work on foreign trade transactions. Direct

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[9] *Ibid.*
[10] *Ibid.*

operation is performed by the Foreign Trade Organizations, which are juridical, independent budget organizations having monopoly rights over export and import of defined groups of products. Currently, they number about 40, over half of which are concerned with machinery, equipment and instrument products.

In principle—and normally in practice—they, rather than the enterprises which will eventually be buying and selling traded products, conduct all trade negotiations with foreign firms. Needless to say, this has turned out to be a cumbersome, generally inefficient way of conducting foreign trade, especially in regard to new technology where very specific information about the using enterprise's needs is required. Recently, in response to growing complaints from Soviet managers and others, there has been talk of allowing more direct participation by Soviet enterprises in foreign trade negotiations. In the last year or so, the State Committee on Science and Technology has been more active in foreign trade negotiations regarding importing new technology—both of knowhow and equipment. Long term contracts were signed in the last few months by the State Committee with such American Organizations as the Standard Research Institute, and Control Data Corporation.

To administer and encourage increased trade, a number of joint U.S.-Soviet organizations—including the official joint U.S.-Soviet Commercial Commission established at the May 1972 Moscow Summit and the US-USSR Council on Trade and Economic Relations—have been established in the last year. The U.S. Department of Commerce has set up a Bureau of East-West Trade.

Problems related to State trading

There are numerous possible problems within this category. I will mention only a few.

To begin, many American businessmen are concerned about conducting business negotiations with government agencies which have, at least so it seems, a monolithic state bureaucracy behind them. The Soviets have on occasion "whipsawed" competing U.S. firms in regard to their bids. It may turn out that some institution-creation on the U.S. side will have to be undertaken.

Second, there is concern that the Soviets will be unstable trading partners, tying their purchases to temporary needs and shortages, rather than making such decisions on more basic factors of comparative economic advantage. If the Russians are not persuaded to agree to longer term purchase agreements, American producers in certain fields may in time become disillusioned and abandon the Soviet market.

Third, if economic relations are to be successful, US firms will need more information about the Soviet economy than the Soviets have been in the habit of giving. This includes data which would reflect business and credit conditions and also the opportunity to conduct on-the-spot observation of relevant economic activity. For example, it is my understanding that no American has been permitted to visit the Kama River truck plant where the U.S. firm, SWINDELL-DRESSLER is "constructing" the foundry.

Fourth, until very recently the number of U.S. companies permitted to operate business facilities in Russia has been severely limited (Pan American and American Express). If trade is to flourish, U.S. firms need office space in Moscow and other Russian cities. It appears that progress on this front is being made. In one of the protocols at the Washington Summit in June 1973 it was stated that an additional ten U.S. corporations had been accredited to establish offices in Moscow. The Soviet government also gave assurance that accredited U.S. businesses in Moscow would among other things be authorized to acquire telephones, telex equipment and other such communication equipment, and would receive prompt processing of visa requests. Moreover, plans to build a $110 million international trade center in Moscow were announced this past September. Construction will be under the supervision of Occidental Petroleum and Bechtel Corporation, with credit and financing through a consortium of U.S. banks headed by Chase Manhattan. The center will have office space for 400 business concerns, living quarters for their employees, a 600 room hotel, and conference and exhibition facilities. Construction will begin in the spring of 1974, planned completion date, 1977.

Fifth, there has been fear that massive Soviet sales in certain U.S. markets could disrupt these markets. In the October 1972 Trade Agreement, the Soviets agreed to discontinue sales of individual products if U.S. firms complained of market disruption.

Sixth, concern has been raised over legal methods for settling disputes. The Soviet government, in the trade agreement, has accepted third country arbitration.

Seventh, there have been questions about protection of U.S. companies' proprietary rights in products and processes. The Soviet government participates in world patenting and licensing arrangements, and now also in copyrighting.

Eighth, the trade agreement included a number of provisions on maritime shipping, an issue of some importance to the American labor unions involved. Forty U.S. and Soviet ports to which access was guaranteed were listed. Also, shares for U.S.-Soviet, and third parties in the shipping business were established.

Credits

It is normally argued, by both sides, that if the Soviet Union is to increase purchases from the U.S., it will need substantial hard currency credits, at least for an initial period.

The first item that had to be settled to clear the way for Eximbank financing was the Soviet outstanding debts for post-World War II civilian goods delivered to it as part of the Lend-Lease Program. In October 1972, the Soviets agreed to pay a total amount of $722 million: 48 million by mid-1975, and the remainder over a 25 year period contingent upon the U.S. officially granting the Soviet Union MFN status. In addition, a separate "Agreement of Financing Procedures" was signed and will remain in effect even if MFN status is not granted by Congress. Under this agreement, the Eximbank will direct credits to the Soviet Foreign Trade Bank on a case-by-case basis. The normal pattern for direct credit will be 10 percent down, 45 percent from Eximbank, at originally six, now seven percent interest—and 45 percent from commercial banks at negotiated interest rates. Some business transactions being discussed will require massive financing. Natural gas deals may come to more than five billion dollars. The total credit exposure of the Eximbank is currently $16.5 billion with less than $1.5 billion to a single country. New approaches to financing, private and government, may have to be developed.

One of the questions raised in regard to the role of the Eximbank in fostering trade with the Soviet Union is whether its activity will amount to the granting of preferential treatment to the Soviets. To the extent that this turns out to be so, the United States runs the risk of antagonizing our regular trading partners. For example, in an era of inflation and high interest rates, even seven percent loans could be considered subsidized credit, and though the Soviet Union will have to negotiate with private lenders for a good proportion of its credit, the Eximbank and its seven percent rate might exert pressure on the market. In addition there is concern that the Eximbank will lean over backwards in its dealings with the Soviet Union and treat the Soviets differently from other customers. It has already been reported that the Eximbank has not insisted upon receiving the usual balance of payments statistics, and independently determined geological surveys and financial statements in its consideration of loans to the Soviet Union.[11]

Another frequent question concerns the credit worthiness of the Soviets, that is their ability to repay the loans granted to them. In recent years, the Soviet Union has been running a deficit in its hard currency balance of payments and its estimated hard currency debt at the end of 1972 was about $2.5 billion; its debt service ratio was about 20 percent with the expectation that it would rise in 1973 to 25 percent.[12] Furthermore. the usual range of estimates put the Soviet debt at the end of the 1970s at $7–$10 billion with a rise in its debt service ratio toward the 50 percent range and finally questions are raised about what sorts of goods and in what quantities could the Soviet Union sell to the United States or other hard currency countries that could yield enough revenue to repay its debts.

In analyzing these questions, it should first be pointed out that a debt service ratio of 25 percent is quite an acceptable level; however, a 50 percent ratio is not. If it ever got to that, it would be difficult for the financial community to grant further credit. Secondly, many of the business arrangements entered into and proposed by the Soviets are self-liquidating, that is the Western seller agrees to accept the output of the plant or technology that he is selling in payment for the credit extended. Third, in addition to its staple raw material, non-ferous

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[11] Marshall I. Goldman, "Who Profits more from U.S.-Soviet Trade?," *Harvard Business Review*, November-December 1973, p. 86.

[12] Farrel, *op. cit.*, p. 702.

metals, and semi-fabricate exports to hard currency countries, including the U.S., the Soviet Union is developing some manufactured goods exports such as watches, television sets, hydrofoil boats, and executive size airplanes.

Fourth, and perhaps most important at this time, the demand for and world prices of two of the Soviet Union's important export products—oil and gold—have risen dramatically in the past year. This puts the Soviet Union's credit position in an entirely different light. The Russian situation in regard to oil is actually rather complex. For the time being, the Soviet Union is an oil exporter. It earned high revenues on this account this past year, and the expectation is that it will continue to do so for several years. But exactly how long is the question. Its consumption of oil over the past few years has risen faster than its production; and in the future, consumption will rise even faster, and in the absence of major new oil fields, production growth will begin to tail off. Some specialists expect the Soviet Union to be a net importer of oil in 10–20 years.

The current Soviet gold stock has been estimated at about 2,000 tons, with annual production of about 300 tons.[13] At the end of 1972, the free market price of gold was approximately $70 per ounce, which meant that the stock was worth about $4.5 billion and the annual flow about $0.7 billion. At the time of this writing (April 1, 1974), the free market price of gold is $175 per ounce, which means that the Soviet gold stock is now worth $11.2 billion and the annual production flow, $1.7 billion. Needless to say, this puts the Soviet Union in a much stronger position vis-a-vis the hard currency countries. Unofficial estimates are that the Soviets sold 300 tons of gold last year, to help finance their hard currency purchases. But the expectations are that in 1974, with the rise in oil prices, and the decrease in Soviet grain purchases (they had an excellent harvest in 1973), they might not have to sell much or any gold.

MFN

The Soviets have been vigorously pressing for the mutual granting of MFN status. They argue that the higher tariffs they now have to pay inhibit their ability to export to the United States, and that, on a diplomatic level, MFN status is a symbol of normalized relations similar to diplomatic recognition. Some in the United States argue that the types of goods, mostly unprocessed, that the Soviets export to the U.S. are not highly tariffed. Furthermore they say, even with the MFN the Soviets will have a hard time exporting highly processed goods to the U.S.—because in most cases they do not produce goods of sufficient quality, design, reliability of services and spare parts supply to be competitive in American markets. Also, the U.S.S.R.'s grant of MFN status does not guarantee the U.S. equal access to Soviet markets, since the Soviet government controls all trade. This basic asymmetry in the MFN situation has been one of the bases upon which many American political leaders pursue a quid pro quo in the political area in exchange for the U.S. granting of MFN. The Soviets appear to be holding to the view that MFN is a test of American commitment to expanded economic relations. For example, in their five year plan for 1976 to 1980, the figures they include for U.S.-Soviet trade may well depend on what we do with MFN.

IV. THE ABILITY OF THE SOVIET UNION TO IMPORT AND MASTER ADVANCED TECHNOLOGY

In this section, I would like to discuss the possibilities that the Soviets will be able to achieve their major aim in the expansion of economic relations with the United States, and that is the acquisition of advanced technology. I will begin with a brief sketch of Russia's historical experience with technology borrowing, which is important in understanding the present situation.

At the risk of gross over simplification, it might be said that all of modern Russian history (from the middle of the 15th century to the present day) has been dominated by the need perceived by Russian leaders to catch up with the more advanced nations of the West. An important part of this catching up process has been the importing and employment of advanced foreign technology. This is seen on a massive scale at the beginning of the 18th Century under Peter the Great who brought in not only foreign technology but foreign technologists by the thousands and built an economic base primarily for the support of this military, foreign policy ambitions.

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[13] *Ibid.*, pp. 691–692, 702.

Within the past hundred years, there have been two major periods of concentrated effort on the part of the Russians to acquire advance foreign technology and currently there is underway a third major campaign. The first of these in the past century was connected with the industrialization spurt in the 1890's. It was led, against the opposition of many among the Russian nobility, by a minister of finance of Russia at the time, Count Witte, whose policy was to encourage foreign capital and direct foreign investment in Russia. Foreign capital especially French and Belgium accounted for almost 50 percent of all new capital invested in Russia during the industrialization spurt of the 1890s. In 1900 foreign companies owned more than 70 percent of the capital in mining, metallurgy and machine building in Russia.

As a result of this foreign investment not only was the capital stock of Russia greatly expanded, but also foreign technology was brought into Russia, in the advanced capital equipment itself, and in the form of human capital. Foreign technologists and experienced businessmen and managers and engineers came to Russia as foreign companies were set up within Russia. Direct foreign investment thus was responsible for the implementation of advanced techniques in several key industries. New technology was often brought into Russia with little or no adaptation, for example, the steel mills built in Southern Russia after the mid 1880s were of the same technological level and size as those being built in Western Europe and furthermore in this period, with the continuing participation of foreigners in management, these steel mills kept up with Western European progress and remained in the main stream of world progress in steel making. Moreover, the foreign firms competed with Russian firms inside of Russian and forced the latter to be more efficient if they were to survive.

A second period of major importation of foreign technology was in the 1920s and especially in the early 1930s. During the relatively free market-oriented period of the new economic policy of the 1920s, the Soviets attempted to import foreign technology through the program of foreign concessions in a number of different forms. The quantitative importance of this program is a matter of debate. But the actual number of business arrangements with foreign concerns, as has been shown in the recent work by Antony C. Sutton, was larger than has been commonly believed. However, it was during the period of the first 5-year plan—1928-32, that major efforts were made to import foreign technology in connection with the industrialization program that was then being initiated. With the emphasis on industrial capital formation, imports of machinery and equipment began to assume greater importance. By 1932, the imports of machinery and equipment rose to a level of more than half of the total imports of the Soviet Union, and imports of certain types of machine—turbines, generators, boilers, machine tools, metal cutting machines—accounted for between 50 and 90 percent of the growth in the supply of these machines during the period of the first 5-year plan. On the whole, imports of capital goods from abroad amounted to almost 15 percent of gross investment in the Soviet Union during the first five-year plan.

Furthermore, imports of certain basic industrial materials—lead, tin, nickel, zinc, aluminum, rubber—accounted for maybe 90 to 100 percent of these materials consumed in the Soviet industrialization program, during much of this period. After the completion of the first five year plan, after 1932, Soviet involvement in this type of trade decreased. This was in large part a consequence of Stalin's policy of non-dependence (often erroneously classified as a policy of autarky) on the West for major parts of Soviet economic materials and capital equipment. But also there were certain financial developments associated with the relative price movements during the depression which made it much more difficult for the Russians to buy equipment with the grain that they were exporting and these developments, these pressures led to a significant decline in trade. Also the inability of the Soviets to acquire foreign credits, they felt they could afford, led to a decline in imports. And in the next five year plan, that is the period 1933–37, imports of foreign capital goods fell to about 2 percent of gross investment. Also dependence upon the West for major products decreased dramatically. Sometimes imports of equipment fell rather drastically. For example, imports of tractors in 1931 accounted for about 60 percent of the growth of the tractor stock in that year. And in the next year it fell to zero.

In both the 1890s and 1930s, it is interesting that the imports of foreign goods, machinery, and technology were paid for primarily through the export of Russian

raw materials—grain, lumber, oil. This is, of course, true to a great extent currently, except for the grain, that is.

In these past periods, of importation of advanced technology, including the period of Peter the Great, the Russians were able, within a compressed period of time, to approach contemporary economic levels in the West and to some extent, even the levels of contemporary technology in the West. But in the longer run, after a period of time, as the advanced nations of the West continued to develop new technology, the Russians were not able to maintain their relative positive and they fell back.

The first decade or so of the 20th Century, following the 1890s, did show signs of being different. But those developments were cut off by World War I and the Communist Revolution. For example, in the period 1905 to 1913, much of the direction of firms that were set up by foreigners in Russia was taken over by Russians themselves. There was a rather rapid development of a Russian managerial group and Russian engineering, technologist and financial groups. By the beginning of World War I, Russian banks, corporation and entrepreneurs were floating their own stock on West European stock exchanges and raising their own capital in the international capitalist world. The Communist Revolution significantly removed, both directly and indirectly, this human capital from Russia, so that after the revolution, this group of trained people was for the most part lost to the Soviets. and to a great extent they had to start over again.

A full identification and analysis of the reasons why historically the Russians have not been able to internalize the creation and diffusion of technology, is beyond the scope of my paper. However, I would like to indicate briefly some of the economic institutions that affect the ability of the Soviet economy to absorb, master and create new technology.

One that has been well discussed in the literature on the Soviet economy is the incentive mechanism that has more or less dominated the Soviet scene since the 1930s. The Soviet economy is currently in a period of economic reform and the picture is not totally clear, but basically this is still an economy where there is a target to be reached. In any such situation there are two ways of assuring success or of increasing the possibility of success. 1) performance; and 2) keep that target within reasonable distance. The second aspect of target type rewarding is detrimental to the innovation process, that always involves risk. The compensation for this possible loss which is contained in the reward for possible success is reduced by the fact that success today will mean a higher target tomorrow, and success in the system requires the rather regular meeting of targets.

There is much discussion in the Soviet Union on how to get around this problem, but nothing very effective has been introduced so far. A second factor involves the arrangements of bureaucratic organizations. A lot of effort is put forth on research and development in the Soviet Union but it is done to a great extent separate from production. As a result, a fair amount of new technology is developed but the implantation and the diffusion of it is limited, for the reasons just discussed, that is the managers of industrial enterprises try to keep new technology away because it will cause problems and will not lead to sustained rewards. Giving the control of R+D to the production managers is also not an acceptable solution, since the expectation is that they will not encourage the development of new products and processes.

A final factor concerns the "creative destruction" aspect of technical change. That is, when something new is done and it is successful, the old is destroyed. In a politicized, bureaucratized economy, those who operate the existing types of activities are much better able to protect themselves against the threat of new types of activities and new technologies. One of the operational advantages of a free enterprise system is that it does not internalize for the whole society the destruction of the old. The price paid for new technology is absorbed by individual elements in the society rather than the whole society. In the Soviet Union, creative destruction is limited by the bureaucracy; this is an important and difficult aspect of the whole process of technical change in the Soviet economy. In general then bureaucracies tend to possess a high degree of risk aversion and ability to protect themselves against the pains of change. This was true of the Tsarist bureaucracy; it is also true of the Soviet bureaucracy. Frequently there appear men in leadership positions who are dynamic and who press for change (such a person for example is Gvishiani, the Deputy Director of the State Committee on Science and Technology). But they are not at the production level and so their influence is limited.

Another factor in the Soviet picture is that they have, primarily, imported foreign technology for domestic purposes rather than for exports which would have to be internationally competitive. Thus, once the new technology was in place, there was no pressure on those using it to keep it up to changing foreign levels and the technology languished. An important element then in analyzing the current situation is the extent to which foreign companies have buy-back arrangements with the Soviets in which the foreign company agrees to buy-back a share of output produced with the new technology and it markets the output in the West.

The technology transfer process is not a simple process. While it is true that the Soviets can import contemporary technology embodied in foreign capital equipment, it is not clear that they can operate this technology in the same way that is operated abroad, nor is it clear that they can master the process of technology creation and renewal.

V. U.S. INTERESTS

Though I am skeptical about the future mastery of technology by the Soviets, it is clear that in the short-run they stand to gain a great deal from expanded economic relations with the U.S. It is not so clear what we as a nation stand to gain. It would be nice to fall back on the market mechanism and say if it is privately profitable, it is socially desirable. But, unfortunately, this is not necessarily true, (as Marx might have said) "what is good for Occidental Petroleum is not necessarily good for the country."

What the U.S. stands to gain is debatable. Even the planned tripling of trade volume to $500 million or even one billion per year, it is argued, will only be on the order of one percent of its total trade—approximately the level of U.S. trade with Spain and Switzerland. This can hardly have a significant effect.

To put the matter briefly, though, I think it is in our interests for economic and political reasons to pursue expanded economic relations with the Soviets.

First of all, the expectation is that the U.S. will have a substantial favorable balance in expected trade, and at the margin this will help our balance of payments.

Second, even though we may not be getting goods we need from the Soviets, American businessmen will be making hard currency earnings which can be used, in normal economic channels, to purchase the goods and services we do need.

Third, it is possible that we could in the longer run gain significant additions to our energy supplies from joint development of Soviet resources.

Finally, there are the political issues and the issue of detente. While normalization of relations and increased economic relations do not guarantee peace between nations (history clearly demonstrates this), it can be argued that they increase the chances of peace.

This is perhaps especially true when an essential element of the economic relations involves international transfer of technology. The process of international transfer of technology is a people process. It will not be sufficient for the Russians to buy blueprints, machines or even turnkey plants. They will also have to import people who are familiar with the advanced processes and who can help guide its implantation.

Increased human contacts between Russian economic decision makers and engineers, and U.S. business men and technologists can contribute toward decreasing tension between the two countries; they might also make a modest contribution toward the opening up of Soviet society.

The Soviet desire for expanded economic relations within an atmosphere of detente, makes possible a certain increase in our political bargaining strength vis-a-vis the Soviets. In the heat of the Mid-East crisis, this may not have been readily apparent. But in time, I think it will become agreed that Soviet behavior in this crisis was to some extent moderate.

In our economic relations with the Soviets we should be hard bargainers, we should pursue our own interests in economic issues and political ones. But the commitment to detente should be preserved. It is in the interest of us all that this be done.

Mr. Ashley. Thank you, Dr. Levine.

Our next witness is Antony C. Sutton, former research fellow at the Hoover Institute on War, Revolution, and Peace at Stanford Uni-

versity. Mr. Sutton has authored several books dealing with Western technology and the Soviet economic development. The record will include a bibliography of his published works that are indicated in appendix A to his prepared statement.

If you will proceed, Mr. Sutton.

STATEMENT OF ANTONY C. SUTTON, FORMER RESEARCH FELLOW, HOOVER INSTITUTION ON WAR, REVOLUTION, AND PEACE, STANFORD UNIVERSITY

Mr. SUTTON. My name is Antony C. Sutton. Until late last year, I was a research fellow at the Hoover Institution at Stanford University.

My field of research since the late 1950's has been the impact of Western technology on Soviet industrial and military development. My findings have been published in four books and several articles. The major publication is a three-volume series published by the Hoover Institution entitled "Western Technology and Soviet Economic Development." Volume 1 of this series covers the period 1917 to 1930; volume 2 covers the period 1930 to 1945; and volume 3 covers the period 1945 to 1965. These studies are a precise technical examination of Soviet industry and trace the origin of the technologies used. I will refer to them as volumes 1, 2, and 3.

I also have another book published last October by Arlington House in New York, entitled "National Suicide: Military Aid to the Soviet Union." This book details the transfers of our military and military related technology to the Soviet Union from 1918 down to the present day.

I also have related articles in, for example, the U.S. Naval Institute Proceedings on the origin of the Soviet merchant marine and its marine diesel engines.

The method used in this research was to examine each major process or technology and determine its origins. Most of my information came directly or indirectly from Soviet sources. Relevant information from U.S. sources is very difficult to obtain and is largely classified. I think this is something of a paradox.

My full statement to the subcommittee—I am summarizing here—gives details of four industrial sectors where I have done considerable work and which have military applications.

First, if I may summarize, Soviet merchant marine technology mostly originates in the West. For example, I identified 44 types of Soviet marine diesel engines, and in every case except two, I was able to make a positive identification of the Western origin. The other two are open; I just could not make the identification. They may be Soviet; they may be Western; I do not know. Generally, about 68 percent of Soviet merchant ships have been built completely in the West; that is engine plus the hull. About 80 percent of the main diesel engines in Soviet ships have been built in the West. The remaining 20 percent have been built in the Soviet Union with Western technical assistance and Western design. Merchant ships are, of course, used for military purposes, such as the supply to North Vietnam and the supply of weapons to the Middle East.

In computers, I can identify no significant Soviet indigenous computer technology. This conclusion is confirmed by Professor Judy at the University of Toronto and Professor Reiter at the Israel Institution for Technology.

My third example is ball bearings technology. It is absolutely essential for weapons systems and originates in the West. The Soviet ability to miniaturize its missile equipment required miniature ball bearings. The equipment to enable mass production of these precision bearings came from the United States. A congressional subcommittee just a decade ago termed the export of these machines to be a "life or death matter for America." However, the Nixon administration has allowed the equipment to go forward.

In military trucks—this is my fourth example—I have identified Western construction of Soviet plants producing military models. I can tie this right down to the precise military model involved. At the moment, U.S. firms are building in the Soviet Union the world's largest plant for 10-ton trucks that will produce about 100,000 trucks a year. The administration has stated that this plant does have a military end use.

Now, the conclusions from these studies—I could go on, of course, for weeks citing the empirical data which are in the four volumes—the conclusions from these studies are very roughly as follows.

First, the Soviet military-industrial complex is dependent on technology transferred from the West and mainly from the United States.

Second, I can make no distinction between civilian and military technology, because all transferred technology has some military impact. Therefore, the term "peaceful trade" in regard to Soviet trade is grossly misleading and should be abandoned. The crux of the problem at issue is technical transfers through the medium of Soviet trade and the use of these technical transfers for military purposes.

Consequently, as I see it, our discussion of Soviet trade suffers from several major weaknesses. We have too many platitudes from businessmen who are in search of Soviet orders, and we have a great deal of testimony, I regret to say, from officials in the executive branch who have not done their homework.

There is an intellectual problem here, the failure to come to grips with the gut issues involved. The root of the question, as I see it, is technical transfers for military purposes.

Another problem we have is that our discussion is in terms of individual sales, current sales, without considering the longrun, cumulative historical aspect. It is very easy to make an argument that any single sale has a minimal effect on Soviet technical ability. But what is important is the sum of all sales to the Soviet Union over the period 1917 to 1974. It is that total structure, not individual sales, which is vital.

Another essential point is that all weapons systems require inputs from the industrial sector, whether it be steel or nonferrous metals, fasteners, castings, or whatever. The specifications differ, but the inputs are produced on the same machines and equipment whether they are going into the civilian sector or the military sector. Therefore, any industrial technology can be used for either peaceful or military purposes. It depends on the intent of the recipient.

I would judge Soviet intent in two ways: One, by their external actions, and second, by their internal affairs. My personal judgment is that we can have no lasting peace in this world without genuine intellectual freedom. The Soviets have made it quite clear they do not intend to allow intellectual freedom within the Soviet Union. There are thousands of Russians in labor camps whose only crime is expression of an opinion. We cannot, as Mr. Kissinger suggests, ignore internal repression within the Soviet Union.

I would remind you that there were many Europeans in the early 1930's who said the same thing about Hitler and transfers of technology. To close one's eyes to persecution does not make persecution go away.

That, essentially, is the summary of my testimony, Mr. Chairman. I would add one thing, that as a result of my publishing this type of information, and specifically "National Suicide: Military Aid to the Soviet Union," I was removed from my position at the Hoover Institution last year.

The Hoover Institution at Stanford University is supposedly a private research center devoted to the pursuit of truth and freedom of inquiry. Its harassment of my efforts to publish information on Soviet technology are inconsistent with academic freedom and the first amendment to the Constitution.

I wish to place on public record that I consider the actions of the Hoover Institution reminiscent of Hitler's book burning and the decades long persecution of Russian intellectuals. These actions should be a warning to us because mine is not the only such case. Others who have protested our military assistance to the Soviet Union have been intimidated and fired from their jobs. I would respectfully urge that the Congress investigate these matters.

I am open for any questions you might have.

[The prepared statement of Mr. Sutton follows:]

PREPARED STATEMENT OF ANTONY C. SUTTON, FORMER RESEARCH FELLOW, HOOVER INSTITUTION ON WAR, REVOLUTION, AND PEACE, STANFORD UNIVERSITY

INTRODUCTION

In the late 1950s I began a study of the transfer of Western technology to the Soviet Union and the impact of this technological flow on the Soviet economy and the related military-industrial complex. The first book resulting from this investigation was completed in 1966 and published in November 1968 by the Hoover Institution at Stanford University under the title Western Technology and Soviet Economic Development 1917 to 1930. (See Appendix A for complete bibliography)

The second volume of the series was completed in late 1968 and published by Hoover Institution in 1971 as Western Technology and Soviet Economic Development 1930 to 1945. Both books have been reviewed in academic journals throughout the world. (Reviews up to March 1973 are listed in Appendix B)

The third volume was completed in mid-1970, and published in November 1973, under the title Western Technology and Soviet Economic Development 1945 to 1965.

About 1968 I became concerned with our policy of technical assistance to the Soviet military-industrial complex, a policy denied by the State Department, and some Members of Congress. This technically subsidized Soviet economy was providing about 80 per cent of the supplies to North Vietnam and U.S. troops were being killed in Vietnam. Consequently, I made numerous attempts to bring the problem to public attention. These attempts may be summarized as follows:

(1) In 1969 I submitted written testimony to the Senate International Finance Sub Committee entitled 'Some aspects of Trade, Western technology and Soviet Military Capability'.

(2) Concurrently, I published articles in National Review, 'Are we in a Pavlovian Box?' and in Ordnance, 'Soviet Export Strategy'.

(3) I wrote two articles for the U.S. Naval Institute Proceedings detailing the Western origins of the Soviet merchant marine and emphasizing that this merchant fleet was used by the Soviets to carry armaments and supplies to North Vietnam to be used against U.S. and South Vietnamese forces. These articles were entitled 'The Soviet Merchant Marine' and 'The Western origins of Soviet Marine Diesel Engines'.

(4) In 1971 and 1972 I made efforts to get release of classified data from Department of Defense to write a two volume academic study of our military assistance to the Soviet Union, as a sequel to my three volume Stanford study.

(5) In 1971 I contracted with U.S. Naval Institute Press to write a book detailing the Western origins of the Soviet merchant marine.

(6) In August 1972 I attempted to brief the National Security Sub Committee VII at the Republican Convention on the problem. Several million copies of this testimony have been distributed but the only official recognition I received for that effort was an injunction not to make any more such speeches if I wanted to 'survive'.

In any event, none of these efforts on my part had any recognizable impact. Therefore in late 1972 I put together the information immediately at hand into a book: National Suicide: Military Aid to the Soviet Union, published by Arlington House in New York. Advance copies of the book became available last July and the book was published in October 1973.

National Suicide came to the attention of Hoover Institution about July 1973. I immediately—and I mean immediately—came under considerable criticism and hostility for publishing the book. My name was removed from the Hoover personnel directory and in August I was arbitrarily removed from my position as Research Fellow at the Hoover Institution. My hasty conversion into a non-person was so complete that the third volume of my Hoover series, which was then in press, had its dust jacket changed to read 'was a Research Fellow at the Hoover Institution from 1968 to 1973'.

In my estimate, reduction to the status of a non-person and associated harassment was retaliation for publishing a book embarrassing to this Administration and some of its friends in the business world. I wish to place on public record that this action—which is common for anyone who protests our military aid to the Soviet Union—parallels the police state tactics of Hitler's Germany and is a pitiful state of affairs to encounter at one of this countries great universities.

At the moment, I have an office at the Hoover Institution and I am receiving my monthly research grant, however I am not officially connected with the Institution, and past events will suggest to the Sub Committee that the Hoover Institution emphatically disassociates itself from my testimony.

SUMMARY OF THE RESEARCH FINDINGS

The problem I have been examining over the past fifteen years is the origin of Soviet technology: i.e., the design and construction of Soviet plants, the origin of Soviet innovations, Soviet technical progress and related problems. My methodology is empirical and technical. In other words, I take each Russian process, technology or type of equipment in turn and trace it back to its origins, whatever they may be. My initial assumption—and this is most important—is that any particular process is Soviet until I can prove it is not. I make this point because Mr. William C. Norris of Control Data Corporation has claimed that researchers (such as myself) are making 'assumptions'. It will be obvious as I develop my discussion that Mr. Norris is apparently unaware of the massive amount of research work that has been conducted on Soviet technology, and of his personal contribution to Soviet militarization.

The information for this research came from a wide variety of sources including:

(a) Declassified government files, particularly those of the State Department. Classification prohibits my using government data from about 1945 onwards.

(b) Soviet technical manuals and handbooks, particularly for the period 1945 to date. It is a paradox that the more recent work is far more dependent on

Soviet publications than on U.S. government data. I would refer the interested reader to the citations in the bibliography in Western Technology and Soviet Economic Development, 1945 to 1965.

In general, I find that almost all Soviet technology has originated in the West: this conclusion holds good from 1917 to 1974. There has been some Soviet innovation in recent years, but it is concentrated in a very few fields, for example, welding techniques, core molds and medical sutures. The examples prominently displayed in Western newspapers are 'one-off' items. The bulk of Soviet technology particularly sophisticated production equipment, originates somewhere in the West, although it may be modified or duplicated and copies are made inside the U.S.S.R. Let me emphasize that we are talking about innovation—which is application of invention to the industrial process.

The Soviets produce many *inventions* but these are not used in the industrial process. They also have done excellent work in pure science and I would cite the work on Vitamin B–15. In brief, my work concerns industrial and military innovations, *not* invention, and *not* pure science.

The reason for Soviet technical dependence appears to be that a centrally planned system cannot generate indigenous innovation. At least such a planned system cannot generate innovation that will compete with Western innovation from enterprise systems. The Russians are intelligent and capable people. It is the planned economic system that is their problem. My conclusions would probably apply to any planned system—including the United States if we continue to centralize economic decision making.

My published research is heavily factual. I have not yet, in the six years since publication of the first volume, received any indication of error in a material fact, and I append as Appendix B a list of the reviews (up to March 1973) of the first two volumes of the Hoover series.

The best way I can quickly summarize these findings, as well as the methodology, is to present data on a few representative sectors. The examples I have chosen also have military significance:

(a) merchant ships
(b) computers
(c) ball bearings
(d) military trucks

(*a*) *Merchant ships*

(References: Volume one: Chapter Fourteen. Volume two: Chapter Thirteen, Volume Three: Chapter Twenty-one. National Suicide: Chapter Nine. Two articles in U.S. Naval Institute Proceedings January 1970, 'Soviet Merchant Marine' and 'The Western Origins of Soviet Marine Diesel Engines')

The Soviet merchant marine has about 6,000 ships.

The only really complete source of data for these ships is the Soviet Register of Shipping. The following are some of the major findings based on an exhaustive analysis of this Register:

68 per cent of Soviet merchant ships were built in the West
80 per cent of diesel engines were built in the West
20 per cent of engines were built in the U.S.S.R. but under Western licensing

There is therefore no such thing as a Soviet designed marine diesel engine. Consequently, Soviet capability to supply North Vietnam, to supply Arab countries with armaments by sea, or to move into the Indian Ocean comes from the Western world, primarily from NATO allies of the United States.

A good example is Soviet supply of the North Vietnamese where Soviets used over 200 merchant ships. The Western origins of these vessels is listed in detail in National Suicide.

The Export Control Act of 1949 was supposed to restrict export of vessels with higher speed and tonnage from the West. Actually the faster and bigger Soviet ships on the Haiphong supply run were built in the West while the smaller and slower vessels were built in Russian yards. This could have been stopped, but State Department ruled that merchant ships were peaceful vessels and could not be used for war purposes. There is no question that if State Department had exercised its veto power in COCOM—according to the intent of Congress—the Soviets would not have been able to supply the Vietnamese War.

(b) Computers

(References: Volume One: Chapter Ten. Volume Two: Chapter Ten. Volume Three: Chapter Twenty-three. National Suicide: Chapters Five and Eleven).

Computers are essential to a modern society and modern weapons systems. Most importantly, a computer cannot distinguish between military and civilian problems. Any computer can handle either type of problem within its capability. Any talk about safeguards on computers to prevent unwanted military use is nonsense. There is no way to check, inspect or safeguard the use of a computer, unless you have your own people do everything from installation to day-to-day operations and that kind of inspection is patently absurd.

My research indicates that there is no Soviet indigenous computer technology. I should say that I cannot find any Soviet computer technology at all—but I have to leave a margin for error on my part. Up to about 1970 all Soviet computer technology that I can identify came from IBM, RCA or the British firm ICT Ltd. Control Data Corporation is also a prominent supplier at this time.

These conclusions on Soviet computers are fully confirmed by other researchers: Professor Judy at University of Toronto has concluded: 'Computer technology in the Soviet Union is virtually entirely imported from the West'. Judy does not identify any Soviet technology and presumably inserts the word 'virtually' to leave a margin for possible error. Last July, Professor Allen Reiter of the Israel Institution for Technology stated: 'The Russians know nothing about modern computer technology'.

In contrast, Mr. Norris of Control Data Corporation disputes these conclusions but so far has not provided data on 'Soviet' technology. To compare computer technology with Soviet theoretical expertise (as has Mr. Norris) is much like comparing apples with oranges.

It appears that the latest Soviet RJAD system is the IBM system 360. In any case Mr. Watson of IBM, and Mr. Norris or Mr. Henig of Control Data can provide the latest details. There is a major problem in this case. The latest data is always denied to private researchers. I have to wait until the Soviets publish it. I can't get it in the United States. The Department of Commerce data is classified, and American firms are unwilling to publish *exactly* what they are shipping. Their statements are limited to bland denials of military impact.

(c) Ball bearings

(References: Western Technology, Volume One: Chapter Ten, Volume Two: Chapter Nine, Volume Three: Chapter Twenty Two, National Suicide: pages 91–100.

Ball bearings are an integral part of most weapons systems; there is no substitute.

The entire ball bearing capacity of the Soviet Union is of Western origin, using equipment from the United States, Sweden, Germany and Italy or copies of previously imported equipment. I have given the full story of this transfer elsewhere (see above references); the following is a summary.

Before the Bolshevik Revolution the only ball bearing plant in Russia was that of A/B Svenska Kullagerfabriken (SKF) established in Moscow in 1915. This plant was nationalized in 1918 but continued in operation under its Swedish engineers. In 1921 *de facto* operation by SKF was formalized under a concession agreement. The original plant was then expanded and re-equipped with Swedish equipment, and the Soviets guaranteed a 15 per cent profit. Another ball bearing plant was built by SKF in the 1920s and operated under a joint Soviet-Swedish arrangement. Both these SKF plants were expropriated in 1930 and became Moscow Ball Bearing Plant No. 2, with an annual production of about eight million ball and roller bearings.

Under the First Five Year Plan the Kaganovitch Plant (Moscow, Plant No. 1) was built, with equipment from the United States and Germany and a technical assistance contract with the Italian firm RIV (Officine Villar-Perosa of Turin) RIV was a subsidiary of FIAT and partly American owned. The buildings for Ball Bearing Plant No. 1 were designed by Albert Kahn Inc of Detroit.

The Kaganovitch plant had a production of 18 million ball and roller bearings in 120 different sizes made to foreign specifications. For example, helical roller bearings were based on Ford, and bearings for tractors on International Harvester, specifications. The equipment for the Kaganovitch came from United

States, Italy, United Kingdom and Germany, combined with some copies of Western machines made in Soviet plants.

Later, another ball bearing plant was erected at Saratov (Ball Bearing Plant No 3) using imported U.S. equipment.

A few Western companies have been associated with this historical development of Soviet ball bearing capacity. Apart from SKF and RIV, the Bryant Chucking Grinder Company of Springfield, Vermont (now part of Ex Cello Corp) is prominent. In 1931 Bryant shipped 32 per cent of its output to the Soviet Union, and in 1932 over half its output. Then in 1938 Bryant shipped one quarter of its output to the U.S.S.R. followed by heavy shipments under Lend Lease.

In 1959 Congress intervened to prevent shipment of 45 Bryant Centalign-B machines to the U.S.S.R. This episode is worth describing, as it typifies the problem of the military character of so-called 'peaceful trade'.

In 1959 the Soviets required a capability for mass production, rather than laboratory or batch production, of miniature precision ball bearings for weapons systems. The only company in the world that could supply the required machine (the Centalign-B) for a key operation in processing the races for precision bearings was the Bryant Chucking Grinder Company. The Soviet Union has no relevant mass-production capability. Its miniature ball bearings in 1959 were either imported or made in small lots on Italian and other imported equipment. In 1960 there were sixty-six Centalign-B machines in the United States. Twenty five of these machines were operated by the Miniature Precision Bearing Company, Inc., the largest manufacturer of precision ball bearings, and 85 per cent of Miniature Precision's output went to military applications, predominantly missiles.

In 1960 the U.S.S.R. entered an order with Bryant Chucking for forty five similar machines. Bryant consulted the Department of Commerce, the department indicated its willingness to grant a license and Bryant accepted the order although the military end use was known to Bryant and Commerce Department.

In 1961 a Senate sub committee investigated this license. Its final report stated in part:

> "The Senate Sub Committee on Internal Security has undertaken its investigation of this matter not in any desire to find scapegoats, but because we felt that the larger issue involved in the Bryant case was, potentially, of life-or-death importance to America and the free world. We are now convinced, for reasons that are set forth below, that the decision to grant the license was a grave error."

The Centalign-B machines were not shipped in 1962.

In 1972, just before the presidential election, Nicholaas Leyds, general manager of the Bryant Chucking Grinder Company announced a contract with the Soviets for 164 grinding machines. Anatoliy I. Koustousov, Minister of the Machine Tool Industry in the Soviet Union, then stated they had waited twelve years for these machines, which included mostly the banned models, and stated:

> "We are using more and more instruments of all kinds and our needs for bearings for these instruments is very great. In all, we need to manufacture five times more bearings than 12 years ago."

My understanding is that the Soviets have recently expanded their missile capability particularly their ability to miniaturize instruments. The relationship between export of the Bryant machines, previously noted as of 'life or death importance to America' and this Soviet expansion should be investigated.

(*d*) *Military trucks*

(References: Western Technology, Volume One: Chapter Fourteen, Volume Two: Chapter Eleven, Volume Three: Chapters Sixteen and Seventeen, National Suicide: Chapter Seven)

The greater part of Soviet military truck production except some specialized vehicles originates in two key production units: the Gorki plant and the ZIL plant with their subsidiary assembly and production units. These units produce civilian and military vehicles and about 65 per cent or so of the parts are interchangeable between the military and civilian units. Of course any civilian truck can also be used for military purposes.

The Gorki plant was built from scratch by Henry Ford in the early 1930s and has had foreign equipment continuously throughout the decades down to the present. Gorki produces the GAZ range of military vehicles including missile carriers, patrol vehicles, jeeps and tow vehicles. The ZIL plant is the former Tsarist AMO plant considerably rebuilt and expanded over the years. It was

first rebuilt in the early 1930s by A. J. Brandt of Detroit with equipment from Hamilton Foundry and Budd Company. The last production equipment I traced from the U.S. to the ZIL plant was in 1970 in the middle of the Vietnamese War. The ZIL plant and its assembly plants in the same group produce military trucks and chassis for rocket launchers, personnel carriers and so on. The details are in my books.

Under the Nixon Administration U.S. firms are building the Kama truck plant. This will be the largest producer of ten ton trucks in the world—100,000 per year: more than all U.S. manufacturers put together. The Administration is aware that the Kama plant has military potential.

CONCLUSIONS

(1) The Soviet military-industrial complex is dependent on technology transferred from the West, mainly the United States. No distinction can be made between civilian and military technology and all transferred technology has some military impact.

The term "peaceful trade" in regard to Soviet trade is grossly misleading and should be abandoned. The crux of the question at issue is technical transfers through the medium of trade and the use of such technical transfers for military production.

(2) Our discussion of Soviet trade suffers from several major weaknesses. We receive too many bland platitudes from businessmen in search of Soviet orders or from officials in the executive branch who have not done their homework. There is an intellectual problem: failure to come to grips with the gut issues involved. Unfortunately Congress has been slow to challenge these unsupported statements and assertions about trade, détente and world peace. The root of the question is technical transfers for military purposes and therefore the discussion should only concern the facts of technical transfers, conducted in technical terms and assessed in terms of the impact on weapons systems. "Trade leads to peace" and similar unsupportable clichés are irrelevant.

A great deal of testimony has been received by various Congressional committees from businessmen, but businessmen have a short time horizon, they are interested in near term orders. Further, successful businessmen are not necessarily logicians; in fact businessmen do not use the process of reason in making their arguments, they use an intuitive process; and business success is largely measured in not being publically found at fault. This is quite different to the logical processes that *should* construct foreign policy.

Another problem in discussion of Soviet trade stems from the concentration on *current* individual sales without considering the long run cumulative historical effects of *all* sales. It is easy to construct an argument that any single sale has a minimal effect on Soviet technical ability, it is done all the time. But the *sum* of all sales to the Soviet Union over the years 1917 to 1974 is the Soviet technical structure. Many of those who stress single sales have attended college economic courses and have presumably heard of the rule "the sum of the margins is the total", and yet this rule has never been applied to Soviet trade. In brief, the sum of all transfers of technology to the Soviet Union is the present technical structure. Therefore it is *the total structure*, not individual sales, that should concern us.

(3) A question can be raised concerning the difference between industrial and military innovation, i.e. if the Soviets can design weapons systems, then why can they not also design industrial systems? The Soviets do have an ability to design weapons systems, but they do not have an ability to generate industrial innovation. Further they cannot achieve the ability to generate internal innovation on a significant scale until they adopt a market system and abandon central planning, which by the way would also be an excellent indicator of a change in totalitarian attitudes, and acceptance of detente, as we understand the term.

Entirely different factors are at work. In weapons design the military adopts a specification for a required weapon and sets up a cost framework. The job of the designers is to design a weapon within a given technical and cost framework. The weapon is tested by determining if it fulfills the desired criteria. Industrial innovation is quite a different process. In any industrial advance there are always alternative methods. The market place sorts out the most effective way in terms of cost and technical efficiency. In other words, you cannot have effective industrial innovation without a market place. There is a market system

in the U.S. but not in the Soviet Union. The Soviets have been able to avoid the cost of this deficiency by importing Western technology.

The essential point for our argument is that all weapons systems require inputs from the industrial sector i.e. steel, non ferrous metals, castings and so on. The specifications differ but these inputs are produced on the same machines and equipment as "civilian" goods. Therefore almost any industrial technology can be used for either peaceful or military purposes. Its use depends on the intent of the recipient.

(4) I would judge Soviet intent in two ways: by their internal affairs and by demonstrated actions toward the outside world.

First, there can be no lasting peace in this world without genuine intellectual freedom. The Soviets have made it clear by word and deed that they do not intend to allow intellectual freedom within the Soviet Union. There are thousands of Russians in labor camps and mental asylums whose only 'crime' is expression of an opinion. We cannot, as Mr. Kissinger suggests, ignore internal repression inside the Soviet Union. There were Americans in the early 1930s who wanted to ignore Hitler's concentration camps and we paid a heavy price. To close ones eyes to persecution does not make persecution go away. The lessons of Soviet prisons are:

(a) they reflect a brutal totalitarian regime and we have no business subsidizing any such regime, fascist or communist,

(b) they reflect hostile intent, because if the Soviets ill treat Russians they can ill treat Americans.

(c) if we ignore repression in the Soviet Union it's not going to be long before repression comes to the United States, and unfortunately there already appears to be a similar pattern developing.

RECOMMENDATIONS

1. That the Congress should investigate the question of our military aid to the Soviet Union and place its conclusion before the public.
2. That the Freedom of Information Act should be amended to provide for declassification of foreign policy documents within five years, as well as publication of monthly data on exports to the Soviet Union including technical specifications, name of manufacturer, and a declaration by the Department of Commerce that the sale is not capable of generating military assistance to the Soviet Union.
3. That an embargo be placed on high technology items, (for example, computers, transfer lines, ball bearing and numerical control equipment) until such time as the question of military aid to the Soviet Union has been examined by Congress.
4. That sales to the Soviet Union should not be financed with taxpayers funds, or guaranteed by the U.S. government. If firms wish to make such sales they should take the risk themselves, not shift it onto the American taxpayer.
5. That the Congress should investigate harassment by business firms and other organizations of individuals who exercise their constitutional right to protest, or comment on, Soviet trade.

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Mr. ASHLEY. Thank you very much, Mr. Sutton.

Our next witness is Dr. Franklyn D. Holzman, professor of economics at Tufts University. Dr. Holzman has published several works on the Soviet economy and its international economic relations. He has been a consultant to the President's Commission on International Trade and Investment Policy and the United Nations, and from 1964 to the present, to the U.S. Arms Control and Disarmament Agency.

Dr. Holzman, we are pleased to have you with us. Please proceed.

STATEMENT OF DR. FRANKLYN D. HOLZMAN, PROFESSOR OF ECONOMICS, TUFTS UNIVERSITY

Dr. HOLZMAN. Thank you, Mr. Chairman.

I am very pleased to have the opportunity to express my views here.

Three years ago, I presented a paper and testimony before President Nixon's Williams Commission regarding our foreign trade and credit policies toward the Soviet bloc. While these policies have been liberalized over the past 3 years, I feel that liberalization could have gone much further. If it seems appropriate, the relevant portions, parts III and IV, of the Williams Commission paper can be introduced into the record of these hearings. (See page 169.) I will confine myself here to summarizing briefly the views expressed in that paper, concluding with some comment on issues not covered there.

There have been, in my opinion, five fundamental flaws in the strategy behind our commodity and credit controls over exports to the Soviet bloc nations since 1955. First, our policy of trying to weaken a nation by denying it commodities and technology makes sense as a shortrun strategy, if one foresees a war in the immediate future.

On the other hand, such a policy is counterproductive over the long run if there is no immediate danger of war, which has been the case with the U.S.S.R. over the past two decades and I hope continues to be so. This is so because denial forces the potential enemy to remedy its deficiencies and become self-sufficient and independent. The sensible long run policy toward a potential enemy is to sell him whatever he needs, with certain obvious exceptions, of course, thereby making him as dependent on you as possible. It is this very same type of reasoning in reverse which has led many in this country to oppose large U.S. investments in the U.S.S.R. in petroleum and natural gas despite their possible advantages to us in the absence of conflict.

Second, over the long run, the distinction between strategic and nonstrategic exports becomes "inoperative." On this point, I can do no better than quote a statement of Thomas Schelling of Harvard University before the Senate Foreign Relations Committee in 1964:

> Wheat shipments may have the same effect on military programs as jet engine sales. Wheat shipments may permit the Soviets to keep chemical indus-

tries oriented toward munitions rather than fertilizers; jet engine sales may permit the Soviets to allocate engineering resources to consumer goods rather than jet engines.

I would go even further than Schelling. It might hurt the U.S.S.R. more over the long run to be deprived of wheat or other nonstrategic products than jet engines and the like, because the U.S.S.R. is probably relatively less efficient—that is, has a comparative disadvantage—in producing the former than the latter category of goods.

Third, and I think extremely important, embargoes and other controls over exports can only succeed if alternative sources of supply are unavailable to the embargoed nation. Our efforts to deprive the Soviet bloc of strategic products and technologies have almost always foundered on this weak assumption. Very few embargoes in world history have been significantly successful because of the difficulty of getting other nations to cooperate. There is always some exporter or nation waiting in the wings eager to grab the profits. The United States not only failed to achieve the objective of its embargo on the Communist countries but probably lost more than $10 billion in Soviet bloc business to other nations in the 1960's.

Fourth, it has always been preposterous to assume that this country and its allies could, even given a 100 percent effective embargo, seriously damage the economic, perhaps also the military, capabilities of the U.S.S.R. The U.S.S.R. is so large and possessed of such rich and varied resources, both natural and human, that it is, like the United States, virtually independent of foreign trade. Only about 3 percent of its output is exported, and a similar percentage of its consumption consists of imported goods. Loss of trade can cause some national discomfort, perhaps, but certainly not a serious illness.

Fifth, there has always been considerable fear in this country that the export of high technology and high technology products to the Communist nations is dangerous to the security of this Nation. I am not well enough informed to argue that this view cannot be justified in the case of some products and some technologies. I do feel confident, however, that despite a substantial relaxation of our export controls in recent years, especially since the Export Administration Act of 1969, these controls are still far more stringent than they need to be. Further, in most though not all cases, the products and technologies which our Government refuses to license are available from Japan or some other Western European nation.

Nine years ago the President's Special Committee on U.S. Trade Relations with East European Countries and the Soviet Union, the so-called Miller committee, concluded:

> In today's world no country can continue to rely heavily on the importation of technology to improve its relative position. To do so may appear to be cheap in the short run, but could turn out to be a sure way of perpetuating second class industrial status.

I subscribe to this conclusion.

There would seem to be at least two factors responsible. First, imported products and technology are almost always those which are already on the market. In any strategic sector, technology changes rapidly and new technologies are always in the process of being introduced while still newer technologies are already on the drawing boards.

By the time the importer has succeeded in mastering and exploiting the product, it is obsolete. This was essentially what the Miller committee meant.

Second, as far as the future performance goes, the importer is the worse off for having borrowed technology rather than having gained the experience of developing the new technology.

There is still a third factor at play in the Soviet-type economies—and this was what Professor Levine spoke to; namely, that they seem to have a comparative disadvantage not only in developing but in exploiting and diffusing new technologies. The reasons behind this are complex and have to do with organization and incentives under central planning.

This deficiency is one factor behind the recent, largely unsuccessful, attempts at economic reform in Eastern Europe and the U.S.S.R. What it means is that selling a new technology to the U.S.S.R. is not like selling it to Japan. In the latter case, one could expect that in a short period of time one would be facing an effective competitor in world markets. In the former case, however, no such fears are necessary. The technology will not be imitated and diffused quickly, nor will the importer often take off from this higher starting point to compete in the further development of technology.

I would like to speak briefly to the question of our Eximbank loans and loan guarantees to the Eastern-bloc countries. There is considerable agitation over the fact that these loans and loan guarantees enable the Eastern nations to buy on credit at what are, in effect, subsidized rates of interest. I share this concern. I do not see, however, that there is anything that we can do about it which would not be equivalent to cutting off our nose to spite our face.

The problem is that most Western nations are sufficiently interested in promoting exports that they are willing to subsidize export credits. A nation which refuses to allow such subsidies seriously handicaps its exporters. So long as the game is played with these rules, we have no choice. The major loser from a unilateral policy of not subsidizing credits to the Soviet bloc would not be the Soviet bloc but, as in the case of our relatively restrictive export controls, it would be American exporters and the U.S. balance of payments.

Finally, I would like to raise a voice in favor of renouncing the attempts to control international trade for political and diplomatic purposes. "Beggar thy neighbor" trade policies which were used in the 1930's were renounced after World War II as ways of achieving full employment and of getting better terms of trade. The IMF and the GATT were formed, and well-known fair rules of the game were accepted by most nations. Today, in my opinion, we need another set of rules, rules which would regulate or outlaw the use of economic weapons for political or diplomatic ends. The major nations have never seen fit to push for such rules, as they did for IMF and GATT, because they have been least vulnerable to economic warfare against them by others.

It seems to me that the events following the October Israeli-Arab war should give these nations pause. It suddenly became clear at that time that the little oil-producing nations of the Middle East have far greater power to practice economic warfare than either the United

States or the U.S.S.R. They can easily bring Japan and Western Europe to their knees. As world raw material shortages proliferate, so will the economic power of nations, small as well as large, to strangle each other. Before that time comes, we must develop some new codes and institutions. There is no better time than the present to begin.

[The revelant portions of the Williams Commission paper, "East-West Trade and Investment Policy Issues", part III, "Policy Issues", and part IV, "Potential Economic Gains From Trade Liberalization" referred to by Dr. Holzman in his statement on page 166, follow:]

[From: United States International Economic Policy in an Interdependent World, July 1971, Washington, D.C. (Papers submitted to the Commission on International Trade and Investment Policy and published in conjunction with the Commission's Report to the President).]

East-West Trade and Investment Policy Issues

(By Dr. Franklyn D. Holzman)

(Relevant portions, parts III and IV, follow:)

PART III. POLICY ISSUES

Direct Physical Controls Over Exports to the U.S.S.R. and Eastern Europe

Since the end of World War II, probably the single greatest deterrent to an enlargement of East-West trade imposed by the West has been in the form of export controls. As time has passed, these controls have been progressively relaxed so that the statement applies with greater force to the early postwar periods. These controls have been embodied primarily in two pieces of Congressional legislation, the Export Control Act of 1949 and the Mutual Defense Assistance Control Act of 1951, better known as the Battle Act.

The Export Contral and Battle Acts

The Export Control Act was passed originally as a substitute for various ad hoc measures used right after the War to prevent the export of goods deemed to be important to our national security. The goods listed under the Act as "strategic" presumably were selected because of their possible contributions to the military-industrial potential of recipient nations as well as, at the time (1949), to prevent export of goods which were in short supply in the United States. While the Act applied in theory to exports to all countries, in fact licenses for exports of listed commodities were usually easily obtained when the recipient was from a Western nation, but not often granted when the importing nation was in the Soviet Bloc. In an amendment to the Act in 1962, the basis for including commodities on the proscribed list and denying export license was substantially broadened from what had been primarily a military criterion to one which could encompass almost any commodity desired by another country. Congress found that "unrestricted export of materials without regard to their military and economic significance may adversely affect the national security of the United States" and provided for the denial of a license for the export of any commodity "to any nation or combination of nations threatening the national security of the United States if the President shall determine that such export makes a significant contribution to the military or economic potential of such nation or nations which would prove detrimental to the national security and welfare of the United States."[1] Since no nation is likely to seek trade which does not provide it with military or economic benefits, this amendment gives the President the power to ban the export of any—or all—commodity to the Soviet Bloc if he sees fit. While the spirit of the amendment is drastic, in practice it meant little or no change but simply justified, ex post *facto*, the denial of export licenses in the past for many commodities which had been hard to justify under a "military" criterion.

In the Export Administration Act of 1969, the "economic" criterion was deleted and the only goods proscribed from export were once again those contributing to military potential. Further, as noted above, the trend has been toward progres-

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[1] Both citations taken from: United States Senate, Committee on Banking and Currency, Hearings on *East-West Trade,* 1968, Part 3, pp. 1194–5.

sive relaxation of export controls. In fact, from 1966 to 1868, approximately 450 additional items were removed from the Commodity Control List of "strategic" commodities administered by the Department of Commerce; this still left, however, some 1,800 commodities which require a validated license for export to the U.S.S.R. and East Europe.[2]

The Battle Act, passed under the influence of the Korean War, essentially was an attempt by the United States to enlist the cooperation of the NATO nations and Japan in achieving the goals of our Export Control Act. Lists (called Cocom lists) of "war materials" and "other materials" which should not be exported to "nations threatening the security of the United States, including the U.S.S.R. and the countries under its domination" [3] are drawn up under mutual agreement. In the event that one of the NATO nations or Japan knowingly allows the shipment of a proscribed item to the Communist Bloc, the Act provides that the United States terminate all military, economic, and financial aid to that nation. The President is empowered, however, to direct continuance of aid if it is in the interests of U.S. security. At the time the Act was passed, the potential penalty was severe since Europe was receiving Marshall Plan aid. Penalties were rarely, if ever, applied in the 1950's, however, despite the fact that the Act was frequently breached. In the past decade, the flow of aid to Western Europe has been so slight (or non-existent to many nations) that the penalty provision has become inoperative vis-á-vis most of these nations.[4]

A Digression of Economic Warfare

These are the basic provisions of the two Acts. They were basically conceived as temporary extensions of wartime measures. As such, there may have been some justification for their continuation until, say, the mid-1950's. Their continuation after that time is, in my opinion, completely misguided and has resulted in more harm than good to the interests of this nation. By the midfifties, the two Acts should have been allowed to lapse except for the maintenance of controls over the export of classified military goods and perhaps a few commodities embodying very advanced military-industrial technology in which the United States has a monopoly.

I have said that our export control policy may have been justified before the mid-fifties. I think it is worth pointing out, however, that it was highly optimistic to believe that it could have had, even at that time, a significant effect on the military capabilities of the Soviet Bloc. The most dramatic evidence that our embargo policy was not likely to have much effect was contained in the experts' assessments of the impact of our World War II embargo and strategic bombing efforts vis-à-vis Germany, which were carried out with infinitely greater intensity than our present policies directed at the Soviet Bloc. I quote one of many similar judgments based on the evidence:

> "During World War II the Allied bombing of Germany was based on the so-called 'bottleneck theory'. It was thought that the military-supporting base would collapse if industries producing certain strategic components, such as anti-friction bearings, were destroyed. The futility of that denial was demonstrated in surveys carried out after the war. They showed that even under blockaded wartime conditions, substitutes for materials denied or destroyed were rapidly developed and factories were quickly reconstructed by transfers of machinery from other less essential industries. It was concluded that denials, whether by bombing or embargoes, to be really effective must be very broadly based or near-complete." [5]

Another piece of evidence that weighs heavily against the possible success of an embargo policy is that provided by Soviet foreign trade behavior in the 1930's.[6] The first two Five Year Plans (1928–1937) placed very heavy dependence on imports of machinery, equipment, and other such commodities scarce to a nation just launching a forced industrialization program. The commercial conditions

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[2] Leon Herman, "East-West Trade: An Overview of Legislation, Policy Trends, and Issues Involved," Legislative Reference Service, Library of Congress. June 17, 1968.

[3] Cited by Herman, p. 5.

[4] Control over exports is by no means confined to the two Acts under discussion in this section. Controls are also exercised through the *Trading with the Enemy Act of 1917, Agricultural Act of 1961,* and others.

[5] Wilczynski, p. 286.

[6] Cf. this writer's "Foreign Trade" in A. Bergson and S. Kuznets (eds.) *Economic Trends in the Soviet Union,* Cambridge, 1963.

under which the U.S.S.R. was forced to trade, partly because of western hostility but also because of the great depression, were so adverse that, despite well-laid plans, it practically withdrew from foreign trade. By 1937, imports had declined to 30 percent of the 1931 level and had fallen from more than 3 percent of GNP to about ½ of one percent of GNP. What this little bit of history points up is that the U.S.S.R. (and today the Soviet Bloc), like the United States, imports from choice, not necessity. At present, in peacetime, even a very tight embargo may be a cause of passing inconvenience and delay, and perhaps a small cost—but no more than that. Small costs like these are especially easy for a centrally planned economy to bear. This is because, for the most part, their economies are growing rapidly; and because it is easier for them to shift such costs to the consumer sector. Look how difficult (so far impossible) it is even in a democracy like the United States to remove resources from the inflated military machine into the battle for less pollution, less poverty, more medical care, better cities, and so forth!

A final point to be made regarding the optimism of our efforts to hurt the Soviet Bloc militarily, and this point is more relevant now than it was before 1955, is the relative divorce of military power from industrial power. With the advent of nuclear weapons and of rockets to deliver them, preparation for war and the fighting of war no longer involve total economic and industrial commitment as it had in the past. A policy then, designed to do anything more than deny the enemy crucial military know-how or materials, is misguided.[7]

Having presented evidence that our policies were "optimistic" as implemented in the early postwar period when the Cold War was intense, indeed, and some possibility of open hostilities may have existed, let me now turn to two fundamental misconceptions behind these policies as implemented over the past 15 to 20 years. In discussing these misconceptions, it is assumed that an embargo policy might succeed in its objectives, an assumption which I have already attempted to show has little basis in reality.

The first misconception amounts to a confusion between the short-run and the long-run. If the short-run probability of war is high, proper strategy dictates a policy similar to that followed by the United States: deny the potential enemy strategic commodities. If, on the other hand, the probabilities of war are low in the short-run, as they have been over the past 15 years, then a different strategy is called for. The better long-run strategy against a potential enemy is to make him as dependent upon you as possible. For the more the opponent is dependent upon you, the more vulnerable he is to damage from economic warfare at the time when it really counts. It is well-known, for example, that the rapid development of Polish and Russian aluminum capacity owes a debt to our postwar embargo policy. Furthermore, that necessity is the mother of invention is evident here also. It has been pointed out[8] that (1) the embargo of natural rubber to the U.S.S.R. led to technological developments by that nation in the production of synthetic rubber and to the growth of a large synthetic rubber industry; (2) the embargo of industrial diamonds was responsible for both a research effort in which an electric arcing device was developed and used as a substitute for the diamonds in some uses, and for an intensive prospecting effort which culminated in the discovery of vast diamond ore reserves in Eastern Siberia. Many other examples could be cited. It seems clear that our policy of the last 15 years, rather than weakening the Soviet Bloc, has undoubtedly put it in a better position to fight a war today should a war suddenly break out.

The second major misconception behind our policies is the idea that an embargo should concentrate on military or so-called strategic commodities as opposed to non-military non-strategic goods.[9] Once it is agreed that war is not imminent, two strategies appear possible. The first, just discussed, is to trade freely (with minor exceptions) with the potential enemy in the hopes of making him as dependent as possible on you. If this policy is rejected, then the appropriate economic warfare strategy would seem to be to concentrate the embargo

[7] This must be qualified for "limited wars;" but "limited wars" were not the target of the Acts under review.

[8] Committee on Foreign Relations, U.S. Senate, *East-West Trade,* Nov. 1964, p. 215.

[9] It is interesting to note that the U.S.S.R. allows us to import on a regular basis, a sizeable list of strategic commodities despite the Vietnam War; platinum, iridium, palladium, rhodium, nickel, magnesium, titanium, cadmium, chrome ore, molybdenum, and aluminum scrap (cf. Herman, p. 19).

on commodities where the gains from trade to the enemy are likely to be very large.[10] That economic as well as military gain should be a criterion of embargo policy seems to have been recognized in the 1962 amendment to the Export Control Act cited above. However, implementation has been deficient. Defense-related items still predominate on the lists of controlled exports. Further, those who have been administering the control lists do not seem fully aware of the fact that the gains to the enemy from imports are not necessarily larger when the commodities in question are products of defense-related industries. A better assumption in the case of the U.S.S.R. is that the gains from imports are larger the further removed the products from the defense area. This has been clear to specialists for a long time from information of diverse sorts about the Soviet economy. Fifteen years ago it was generally thought among Sovietologists that if the U.S. and the U.S.S.R. were to trade freely with each other on the basis of camparative advantage, the U.S.S.R. would import agricultural products and consumers' goods from the U.S. and the U.S. would import industrial products from the U.S.S.R. These "informed guesses" were substantiated by a series of unclassified studies of product-by-product dollar-ruble ratios carried out by RAND Corporation and the Central Intelligence Agency. These studies clearly demonstrated that the ruble was worth relatively more in the industrial sector relative to the dollar than in the agricultural and light industry sectors. Early this year, attention was called to these studies, particularly to that of Abraham Becker of RAND published in 1959, by Michael Boretsky in his Joint Economic Committee study "The Technological Base of Soviet Military Power."[11] The following are selected dollar-ruble ratios for 1955 as calculated by Becker, Boretsky and the C.I.A.:

	1955 Dollar-Ruble ratios
Electrical control apparatus	0.09
Power boilers and steam turbines	8.33
Metal-cutting machine tools	5.56
Electro-technical products, excluding control instruments and electronic equipment	3.53
Railroad equipment	2.70
Farm machinery and tractors	1.54
Motor vehicles	1.23
Food and nonfood consumers' goods	*1.00

*In a C.I.A. study, the ruble was shown to be worth approximately $0.63 in food and $0.56 in non-food consumers goods. For comparability, the turnover tax should be removed and this would bring these ratios up to about $1.00 Cf. C.I.A. A Comparison of Consumption in the U.S.S.R. and the U.S., Jan. 1964.

What these ratios say is that a ruble was worth 9.09 in the production and purchase of electrical control apparatus but only $1.54 in farm machinery and tractors, $1.23 in motor vehicles, and somewhere around $1.00 in consumer goods. Why should this be so? Boretsky theorizes (p. 203) that ". . . the decisive factor is the relative priority for investment, research funds and other resources which a particular Soviet product line has enjoyed in *Gosplan* and/or the party over the years . . ." Since defense-related industries receive priority in investment and research effort whereas consumer-oriented industries and agriculture do not, the latter tend to be relatively inefficient and high cost, the former relatively efficient and low cost. An embargo policy designed to prevent the U.S.S.R. from reaping large gains from trade would do well to concentrate on low dollar-ruble ratio commodities.

For those who are still not convinced, let me quote a statement by Thomas Schelling of Harvard University before the Senate Committee on Foreign Relations in 1964:

"Wheat shipments may have the same effect on military programs as jet engine sales. Wheat shipments may permit the Soviets to keep chemical industries oriented toward munitions rather than fertilizers; jet engine sales may permit the Soviets to allocate engineering resources to consumer goods rather

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[10] Losses from denying trade to the opponent would have to be balanced, of course, against the losses to the nation imposing the embargo. This point never seems to weigh in U.S. calculations. See below.

[11] Michael Boretsky, "The Technological Base of Soviet Military Power," in Joint Economic Committee, Congress of the United States, *Economic Performance and the Military Burden in the Soviet Union,* Washington, D.C. 1970, pp. 189–231.

than jet engines." [12] What Schelling doesn't say is that the relative gain to the Russians in this resource reallocation process is much greater in the case of grain imports than jet engine imports because they are relatively more efficient in production of the latter.

Before turning to the case of commodities such as computers which embody very high technology and know-how, let me first point out briefly a number of other deficiencies in the conception of the Export Control and Battle Acts. First, as already footnoted above, there is a tendency in establishing control lists to ignore the fact that trade benefits not just the importer, but the exporter as well. The gains from exporting accrue (1) to the exporter in the form of profits (2) to the exporting nation in the form of foreign exchange reserves, (3) or if the reserves are spent on imports to the importing enterprise in the form of profits, and (4) to the ultimate user of imports in the form of cheaper or better products. In this connection, it is important to note that the gains from trade which are sacrificed by the United States as a result of the Export Control Act are of relatively much less consequence to this country than are the gains foregone by Western Europe in the implementation of the Battle Act. This is because exports and imports amount, on the average, to perhaps 20 or 25 percent of the GNP's of the nations of Western Europe in comparison with the 4 or 5 percent of U.S. GNP.[13] It may well be that implementation of the Battle Act hurts our allies as much or almost as much as the smaller nations of Eastern Europe and more than it hurts the Soviet Union.

Second, for at least a decade it has been stressed over and over by critics of our East-West trade policies that the communist nations are not a monolithic group but encompass considerable political diversity. Further, it is clear that each nation puts its own national interest above that of the group, an important factor in the failure of the Comecon nations to "integrate" their economies to any significant degree. While some cognizance has been taken of this situation, we certainly have not in our trade policies exploited it as fully as we might have.

Third, to a considerable extent our control lists are ineffectual in preventing the sale of embargoed commodities. This is because (1) the list observed by the United States is longer than that observed by Western Europe, and (2) implementation of Western European controls appears to be considerably less stringent than implementation of U.S. controls. In either case, commodities which this nation feels should not be shipped to communist countries nevertheless find their way eastward. This is deplorable on two counts. First, it needlessly deprives American enterprise of markets. Second, it creates an image of impotency and ineffectualness.

High-Technology Commodities

So far the discussion has centered on commodities in general. Consider now the policy toward the export of goods, whether military [14] or civilian, which embody advanced technology. Computers are probably a classic case of a high-technology commodity which has both civilian and military uses, and in which the U.S. has the technological lead. The case against exporting computers, advanced weaponry, and the like to the Eastern Bloc is probably made more cogently than for any other group of commodities. Recent developments are taken by some scholars to suggest that the Soviet Bloc may be particularly vulnerable at this time to export controls over commodities embodying advanced technology. The developments I am referring to are the retardation in growth rates experienced by all of the European communist nations. Further, analysis of the causes of the slowdown in the Soviet growth rate by both Soviet and Western economists suggests that a decline in the contributions of technological progress may have been primarily responsible.[15] Those who believe in economic warfare therefore find the present situation an ideal one for employment of export controls.

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[12] In *East-West Trade,* op. cit., p. 290.

[13] Comparable figures for the smaller countries of Eastern Europe and the U.S.S.R., respectively, explain Eastern Europe's greater interest in East-West trade than is true of the Soviet Union. It is also worth pointing out that the Soviet Union's very small ratios of exports and imports to GNP, of around 3 percent, suggest the futility of trying to seriously hurt their econmic or military efforts via economic warfare.

[14] It seems highly dubious that the U.S.S.R. would want to buy weapons from us which did not embody advanced technology; they are probably as efficient at producing them and as overstocked as we are.

[15] Alfred Zauberman, "Pushing the Technological Frontier Through Trade," in *East-West Trade and the Technology Gap,* ed. by S. Wasowski, New York, 1970, 139–147.

In my opinion, the case for controls is not so irresistible. With the exception perhaps of the most highly strategic commodities embodying new technology, the case for export controls here is subject to most of the criticism presented above. For example, it remains true that many products, the export of which we would like to ban, will be available from Western Europe. Further, even if the Bloc nations cannot import prototypes, they can derive considerable information from the technical journals which are freely available. According to an authoritative study, Soviet computer experts are fully abreast of developments in this field through the literature even though the Soviet computer industry lags way behind.[16]

Also, in the area of technology, the possibility of differentiating our control policies to favor some communist nations but not others is virtually negligible because of the present relatively free dissemination of "know-how" in the Bloc and the fact that dissemination is almost costless. It also remains true that while there may be short-run losses from not being able to import technology, there may be long-run gains and development of greater independence. This point was put another way by the so-called Miller Committee [17] which concluded: "In today's world no country can continue to rely heavily on the . . . importation of technology to improve its relative industrial position. To do so may appear to be cheap in the short run, but could turn out to be a sure way of perpetuating secondclass industrial status." The fact is that by the time a prototype is exploited by an importer, it is out of date; reliance on importation of technology leads to a systematic lag in technology.[18]

One may also question the interpretation to be placed upon studies cited above which show a declining role for technology in the growth performance of the U.S.S.R. Several recent studies [19] suggest that the problem with technology arises not so much from lack of know-how, although this may contribute, but rather from problems of organization.[20] That problems of economic organization in the centrally planned economies are serious is well-known. Further, they are largely responsible for the recent attempts at reform. Difficulties in the development and introduction of new technology into industry appears to be one of the major consequences of the organizational crisis. The Soviet computer industry is one such victim of organizational dysfunction, according to Judy. The lag behind the West, he argues, is not due to lack of information or lack of competent personnel but rather to the poor incentive-motivational system which discourages risk-taking and encourages the production as well as use of obsolete equipment.[21] What is true of the computer industry is true to a greater or lesser degree of most of the industries in Eastern Europe and the U.S.S.R.

There would seem then to be no special economic reason why commodities embodying advanced technology should be treated differently from other commodities. The failure, if any, of technology to contribute to the growth of the communist nations does not appear to be due primarily to an inability to import and continued restrictions along these lines are unlikely to have a significant economic effect. There may, of course, be military reasons why products like our most advanced computers should not be exported to the U.S.S.R. Judgments on matters of this sort are beyond the competence of the economist. My hunch is, however, that those who make judgments on these matters usually err several orders of magnitude on the conservative side.

If technology is to be treated like any other commodity, then it should also be paid for like any other commodity and properly protected according to Western conventions. That this has not always been the case in the past is well-known. The reasons are that under communist convention, inventions and tech-

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[16] Richard Judy, "The Case of Computer Technology," in Wasowski, *op. cit.*, pp. 43–72.

[17] Report to the President of the Special Committee on U.S. Trade Relations with East European Countries and the Soviet Union, Dept. of State, 1965, pp. 14–15.

[18] Cf. Leon Herman, "Economic Content of Soviet Trade with the West," in P. Uren (ed.), *East-West Trade*, Toronto, 1966, p. 34.

[19] See articles by Judy, Woroniak, and Wasowski in Wasowski (ed.), *op. cit.*

[20] Let me add a skeptical note on quantitative measurements of the contributions of technology to growth. Technology itself cannot be measured, of course. It must either be approximated by proxy variables of dubious validity (consider that there are even serious problems in getting good measures of changes in labor and capital inputs) or be viewed as part of the "residual"—that part of the growth in output not explained by identifiable inputs. As part of the residual, it shares the honors with other unmeasurable inputs like "organization"—certainly a factor of significance in the CPE's today.

[21] He also argues that the Soviet authorities have not accorded the industry high priority in terms of personnel and investment, suggesting that if they did so their lag could be substantially cut.

nology are in the realm of public goods; further, as large-scale net borrowers, no motivation to adopt Western conventions has existed. This situation is changing. As their technology has caught up, they have technology to sell. Even the Soviet Union finally joined the Paris Convention for the Protection of Industrial Property in 1965. Within the Soviet Bloc, there are pressures to end the free distribution of know-how and put technological exchange on a commercial basis. American firms which want to export technology should bargain for proper price (as they probably do) and secure appropriate guarantees. There is no reason for them to settle for less—and under present changing conditions, they probably will not have to.

The Total Embargoes on China and Cuba

In 1950, the U.S. applied a total embargo on trade with Mainland China under the Trading with the Enemy Act of 1917 because of China's participation in the Korean War.[22] With minor exceptions, a similar embargo was placed on trade with Cuba in 1961. Neither of these embargoes has ever been relaxed to a significant degree by the United States. In 1952, the NATO powers and Japan agreed, as a result of U.S. pressure, to apply more severe controls over exports to China than were in operation against the European communist nations. Our allies were unwilling to maintain this so-called "China differential" and it was abolished in 1957 leaving China on the same footing as other communist nations. The Cuban embargo is participated in by the other nations of Latin America.

At the time the embargo on China was applied, there was, under the circumstances, almost no alternative open to the United States. The embargo at that time may even have had an economic and military impact on China and North Korea since, so soon after World War II, the nations of Western Europe were not able, and after 1952 willing, to supply China with commodities denied to them by the United States. Over the past decade, however, the economic and military effects of our embargo must be judged to be close to zero. Certainly, China can get most of the things she needs and probably at not much greater cost, from the U.S.S.R. or Eastern Europe, if not from Japan and Western Europe. Furthermore, like the U.S.S.R. and the U.S, China is a big country with a small trade participation ratio (exports and imports each no more than 3–4% of GNP), and therefore with a naturally limited vulnerability to the effects of economic warfare. The really bizarre feature of this affair is that some 17 years after hostilities with North Korea have ceased, the embargo is maintained with virtual wartime completeness. (This is, of course, no more bizarre than our refusal to recognize China and vote for admission into the U.N.—in fact, it is an economic corollary of these policies.) Continuation of the wartime embargo appears even more bizarre when one considers China's relatively unaggressive military behavior since Korea and her serious political split with the U.S.S.R. In fact, there would seem to be absolutely no reason not to immediately reduce controls over exports to China to the level presently enjoyed by the U.S.S.R. and Eastern Europe.[23]

While China was never very vulnerable to embargo, Cuba was. A small country, Cuba's trade participation ratio is high, in the neighborhood of 30 percent; and Cuba depended heavily upon the United States as a market for sugar and other products and for supplies of machinery and equipment. The embargo certainly hurt Cuba: she lost her sugar market and the source of supply of spare parts to keep her machinery and equipment running smoothly. The Soviet Union was forced to step in and bear a large part of the costs of adjustment. According to Dean Rusk in 1964,[24] the purposes of the embargo were fourfold: to reduce Castro's will and capacity to export subversion to Latin America, to disenchant the Cubans with Castro, to show other Latin American nations that Communism has no future in the Western Hemisphere, and to raise the cost of Cuba to the U.S.S.R. With the exception of the fourth purpose, the embargo would seem to bear little relation to the achievement of these goals.[25] And to a nation willing to spend 10 percent of its GNP on defense, the fraction of one percent

[22] North Korea was similarly embargoed at that time and North Vietnam is also presently subject to total embargo.

[23] Lest someone should contend that by our embargo we might have influenced China's behavior, recall that China broke with the Soviet Union on political and ideological matters, although at the time this meant disrupting economic relations with the nation which took half of her foreign trade and from whom she had received long-term credits.

[24] Cited by Wilczynski, pp. 376–377.

[25] Witness the recent coup in Peru and the Allende vistory in Chile.

required of the U.S.S.R. to assist Cuba must appear to be a small price to pay for a base in the Western Hemisphere. This is not to deny that the Soviet Union undoubtedly makes her contribution to Cuba with reluctance and would like to devote these resources to other ends. Given Soviet priorities the Soviet consumer undoubtedly is fractionally (of one percent) poorer for the Cuban affair.

Our embargo strategy does not appear to have had its desired effect in Cuba.[26] In retrospect, there is cause to wonder whether Cuba would not have become another Yugoslavia had the United States treated her revolution with sympathy or even with neutrality rather than with an act of total economic warfare. Had we not severed trade relationships, Castro would have had to think twice before allowing Soviet missile emplacements in Cuba. The threat, at that time, of severed trade relationships with the United States would have constituted a substantial deterrent. Our embargo no longer has deterrent power. In my opinion there is no percentage in treating Cuba differently from other communist nations.

Extension of Medium- and Long-term Credits to the U.S.S.R. and Eastern Europe

Control of credits extended by private businesses or banks to communist nations lodges in the Johnson Debt Default Act of 1934. This Act prohibited the extension of credits or of financial assistance in any form to any foreign government which is in default on its obligations to the United States. It has since been modified to exclude all nations which are members of the IMF or IBRD. Further, in 1963, in connection with the proposed sale of wheat to the U.S.S.R., the Justice Department stated that the Act was not intended to rule out the granting of ordinary commercial credit by exporters—presumably 90-day credits.

With the exceptions of Albania and Bulgaria, all of the European communist nations are considered to be in default under the Johnson Act. The major items of default in most instances, are on World War I debts and on Lend-Lease. The Soviet Union's World War I indebtedness is now considered to be in the neighborhood of $700 million, of which $192.6 million is principal and the remainder accrued interest. The major unsettled item in connection with Lend-Lease refers to deliveries made before V-J Day. Negotiations on the roughly $11 billions worth of wartime shipments bogged down in the early postwar period with the United States asking for an $800 million settlement on the estimated $2.6 billion worth of civilian-type supplies in Soviet custody at the end of hostilities and the U.S.S.R. offering $300 million.

It is difficult for an economist qua economist to discus the Johnson Act soberly: its major (and only) purpose at present would appear to be the political one of denying the communist nations medium- and long-term non-governmental credits. Consider that some 20 nations still owe the United States more than $23 billion in World War I debts[27] (of which roughly half is accrued interest) and that only the Soviet Bloc nations with less than $1 billion of this debt are dened credit; consider also that the nations of Western Europe and Yugoslavia are exempt from the Johnson Act by virtue of having become members of the Bretton Woods organizations, a fact quite unrelated to their debt defaults and to the original concept of the Johnson Act; consider finally that the World War I debt for which the U.S.S.R. is held responsible was incurred by a hostile government subsequently overthrown by the present government, after which the present government was blockaded by the allies; and that the debts were for a war which the Bolshevik leaders did not believe was in Russia's interest and which they denounced.[28]

It is now 52 years since World War I ended. Many of the nations which owe us money no longer exist. To the extent that there is validity to the concept of "statute of limitations," it would seem to apply to World War I debts. We should wipe the slate clean of these "bad debts." Some day they will have to be forgiven or written off, for they will never be repaid. Or is it possible that in the year 2071 we shall still claim that some 20 nations owe us (with constantly accruing interest) more than $100 billion?

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[26] Not only was the embargo vitiated by an increase in Soviet Bloc trade and aid, but the nations of Western Europe continued to trade with Cuba despite the imposition of sanctions by the United States. Cf. Gunnar Adler-Karlsson, *Western Economic Warfare, 1947–1967*, Uppsala 1968, Chap. 17.

[27] Margaret Myers, *A Financial History of the United States*, New York, 1970, p. 407.

[28] It is perhaps worth noting that the credit-worthiness of the U.S.S.R. has been unquestioned in its post-World War II dealings.

The case against Lend-Lease is somewhat different. The present government of the U.S.S.R. can be held responsible for Lend-Lease. Further, payment has been within their means and the requested settlement is in fact only a fraction of the original value of the equipment delivered. Nevertheless, Soviet reluctance to pay is not difficult to understand. For while they profited enormously from the lend-lease shipments, by any measure which can be constructed, they incurred greater losses and underwent more suffering during World War II than any other allied nation. Their losses include about 25 million lives, the destruction of most of their major cities, and much of their industrial capital.[29]

On the other side of the picture, Lend-Lease to the U.S.S.R. certainly saved large numbers of American and Allied lives and resources. In fact, ignoring repayment, Lend-Lease to the U.S.S.R. was probably the single most profitable investment made by this nation in World War II with the possible exception of the atom bomb. Furthermore—and this applies to the World War I debt also—to ask repayment is in basic conflict with international economic morés as they have evolved in the postwar period. Now, even in peacetime, large grants are made to other nations to assist them to develop and reconstruct. If World War II were to be fought all over again, resources would be shared, not loaned. In fact, a hint of misgivings over the fact that any repayment might be expected is contained in President Roosevelt's Letter of Transmittal to the *Eleventh Report to Congress on Lend-Lease Operations* for the period ending July 31, 1943:

> "The United Nations are growing stronger because each of them is contributing to the common struggle in full measure—whether in men, in weapons, or in materials. Each is contributing in accordance with its ability and its resources. Everything that all of us have is dedicated to victory over the Axis powers. The Congress in passing and extending the Lend-Lease Act made it plain that the United States wants no new war debts to jeopardize the coming peace. Victory and a secure peace are the only coin in which we can be repaid. . . ."

Like the World War I debt, the Lend-Lease debt would seem to be a purely "political" and in my opinion somewhat hypocritical basis upon which to deny non-governmental credits to the U.S.S.R. under the *Johnson Act*. Also, like the World War I debt, the Lend-Lease debt is an anachronism. If recommendations regarding a Lend-Lease settlement were in order, my own would be the following. A recommendation based on purely moral considerations would hardly fail to involve, it seems to me, outright cancellation of the debt. Such a step would be based entirely on the situation during World War II under which the debt was incurred and would not imply approval of Soviet policies and actions since that time. Since moral considerations of this purity are not likely to gain many adherents,[30] however, I would offer a second, more pragmatic course of action. It is unlikely that the U.S.S.R. will improve on their offer of $240 million. Since under the Lend-Lease Agreement, all debts are interest-free, it behooves us to accept this offer without undue delay. By accepting the offer, we stand to gain $240 million which might otherwise never be collected. Acceptance of this offer could, of course, be used as part of a package deal in which concessions are made by the U.S.S.R. on some other policy issue.[31]

The major economic consequence of invoking the *Johnson Act* with regard to non-governmental credits is to place our businessmen at a disadvantage in Soviet Bloc markets. It is noteworthy that the Western European nations apply no such restrictions to their own nationals. It is well-worth devoting a few lines to Western European credit policies. Since 1963, in particular, Western European and Japanese attitudes on this matter have been particularly liberal. Before 1963, credits were usually for less than 5 years in accordance with Berne Union rules and interest rates were higher than charged non-bloc customers. Since

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[29] In 1924, Louis Marin expressed similar views in the French Chamber of Deputies: "While war still raged, statesmen in every country appealed to the common cause. Some gave their ships, some munitions, some the lives of their sons, some money, and today only those who gave money come saying to us: 'Give back what we loaned'." Herbert Feis, *The Diplomacy of the Dollar,* New York 1966, p. 22.

[30] Such a proposal faces the additional problem that Lend-Lease settlements were collected from other allied nations.

[31] The U.S.S.R. is not likely to be willing to make concessions at this point to get a $240 million as opposed to an $800 million settlement since they are probably satisfied with the *status quo* in which settlement remains in abeyance. However, if at some future date another issue is on the table, a $240 million settlement might be used by the United States for bargaining purposes.

1963, longterm credits of 10 to 15 years have commonly been granted on large contracts such as those calling for the construction of large (e.g. chemical and fertilizer) plants and interest rates have fallen in many instances to the 4–6 percent range. These credits have usually been guaranteed by governments or by government corporations; direct government loans have also been extended by a number of nations.[32]

Even more dramatic than the extension of credits and loans on favorable terms have been the large number of business ventures which, over the past 7 or 8 years, have been undertaken jointly by private corporations in Western Europe and nationalized enterprises in Eastern Europe, particularly Bulgaria, Hungary, Czechoslovakia, and Poland. Some of these undertakings are located in the West, others in the East. With the exception of Yugoslavia, western firms do not have an equity in joint ventures located in the East but do, of course, share in the profits. These ventures have assumed many forms from joint production to joint marketing activities. A major impetus to Western enterprises has been the lower cost and availability of labor in the East plus entrance to protected markets; the socialist nations are interested in the technological, organizational and marketing know-how which is made available as well as the import of capital which is involved in most agreements.[33] Joint ventures have not been concluded with the U.S.S.R. although western firms have contracted to construct plants within that nation's borders.[34]

So, to sum up: U.S. policy on credits to and direct investments in Eastern Europe, like our export control policy, suffers the serious defects of being ineffective in achieving its goal as well as in delivering potential markets to others.[35] However, aside from the ineffectiveness of our policy, a question remains as to whether an absolute denial of credit to communist nations makes good economic sense on any grounds. This question is discussed directly below and can be taken to apply to governmental as well as non-governmental credits.

The question of credits to the U.S.S.R. and to Eastern Europe is usually discussed in terms which are not very satisfactory ones to the economist. The question is usually posed in "yes or no" terms rather than in terms of: how much? for how long a period? and at what interest rate? Further, extension of long-term credits, as opposed to commodity trade, is often mistakenly viewed as a form of aid. To quote Dean Rusk:

> "While short-term credits are a normal facility in connection with international trade transactions, long-term credits raise different problems. They amount to an extended advance of resources to the purchasing country and, in that sense, they have some of the characteristics of foreign aid." [36]

Let me deal with this latter issue by means of a simple hypothetical numerical example. Suppose a nation borrows $1 million at 4 percent interest which is to be fully repaid in 10 years in a single payment which will amount to $1,480,000. Suppose that the $1 million is invested instantaneously and that the marginal productivity of capital in the borrowing nation is 6 percent. In this case, at the end of 10 years, the borrower will have accumulated an additional $791,000. After repayment, the borrower will have a profit on the transaction of $311,000 over the 10 year period. If the rate of return on capital were 8 percent, the 10 year gain would have been $678,000.

For purposes of comparison, suppose now that a nation is able to export abroad at a 5 percent higher price than at home, and import at a price which is 5 percent below the cost of producing an import substitute. This amounts to a 10 percent profit on balanced trade. Balanced trade in one year of $10 million would generate savings, then, of $1 million which could be invested as above but without the necessity of repayment. The gains over 10 years from this investment would amount to $1,629,000 at a 5 percent marginal productivity of capital; $1,791,000

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[32] Cf. for example, Wilczynski, chap. 10.

[33] Wilczynski, chap. 15.

[34] An outstanding case in point is the Fiat Auto plant. In contrast, our Government advised the Ford Motor Company in 1970 not to enter negotiations for a similar undertaking.

[35] This statement and the analysis of this section applies not only to Johnson Act restrictions but also to the 1968 Fino Amendment to the Export-Import Bank Act. This Amendment prohibits the Bank from providing export credit facilities for trade with nations which are aiding North Vietnam while hostilities with that nation continue. All the Eastern European nations, excluding Yugoslavia, and the U.S.S.R. fall under this prohibition.

[36] Committee on Foreign Relations, U.S. Senate, Hearings on *East-West Trade,* Part I, Washington, D.C. 1964, p. 15.

at 6 percent; and $2,158,000 at 8 percent.[37] Or to put in another way, under our assumption, balanced trade of $1,734,000 in one year would provide as large benefits over a 10 year period as would a $1 million loan which has to be repaid in 10 years when the marginal productivity of capital is 6 percent; balanced trade of $3,139,000 is required if the marginal productivity is 8 percent.

What do these figures tell us? The first lesson is that the gains to a borrower from a loan are not necessarily different from trading commodities with him at prices which yield a profit. As a first approximation, it could then be argued that if we are prepared to engage in peaceful trade with a nation it is inconsistent to not also be willing to extend loans.

In rebuttal, it will be argued that a loan enables the borrower to invest more in the current period than would otherwise be possible. This may well be true, particularly given the "over-full employment" which characterizes the CPE's (although usually more savings can be made available, when necessary, by squeezing the consumer a little harder.)[38] Granting that it is true, it is nevertheless misleading. First, at the end of the 10 year period the borrower has to repay principal and interest to lender, a transaction typically viewed as a hardship by borrowers. At that point in time, there is a net transfer of resources available for investment from borrower to lender. Secondly, not only are the resources for investment made available at that time to the lender, but unless the lender has been extending credit at a rate of interest which is below the marginal productivity of capital at home, then the lender as well as the borrower is richer than would have been the case had the transaction not taken place.[39]

To sum up: given a time horizon which encompasses a longer period than the immediate present—and except in times of acute international crisis one would expect that our national policies would be framed with such a perspective in mind—then there would not appear, in principle, to be much economic difference between trade with and the extension of credit to another nation. Instead of applying aboslute prohibitions on the extension of credit, we should be concerned rather with specifying terms under which the gains from the transaction are properly shared and the risks not undue. So, for example, an intergovernmental $10 billion—4 percent-20 year loan to the U.S.S.R.—would probably be viewed as risky (in terms of repayment), nonprofitable, and with potentialities for changing the balance of power. On the other hand, a $500 million dollar—8 percent-6 year loan might well be viewed as contributing to our national interest. As far as extension of credit to the Soviet bloc by private business is concerned, it is hardly likely to be on sufficient scale to matter one way or another. I would favor repealing the Johnson Act and the Fino Amendment to the Export-Import Bank Act thereby harmonizing our credit and investment policies toward the Soviet Bloc with those of Western Europe.

Restrictions on Imports from Communist Nations: the MFN Problem

A major purpose of GATT and the use of MFN clauses is to foster non-discrimination in trade and to encourage a lowering of trade barriers[40] and an increase in trade on the basis of reciprocal advantage. The Soviet Bloc nations have been very desirous of being accorded MFN status since, without it, they must sell their products in western markets at a disadvantage—subject to higher tariffs (and other impediments) than the exports of other nations. The difficulty which arises in admitting these nations to the MFN community is that, as outlined in section II.D above, they cannot reciprocate MFN treatment in the conventional way. They either do not have tariffs to lower or, where double-column tariffs have been introduced by some communist nations in recent years, application of the lower set of rates has no automatic effect on either domestic prices or on total quantities imported.

Before World War II, the U.S.S.R. developed an *ad hoc* solution to this problem in bilateral negotiations with individual western nations by agreeing to in-

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[37] If the marginal profit on balance trade were 10 percent, investment would be directed into exports, of course.

[38] Poland in December 1970 constituted an important exception to this statement.

[39] In further rebuttal it might be argued that before the loan is repaid, war may break out. If such a contingency is viewed as probable, of course, one can only admit that it would be imprudent to extend credit.

[40] This applies to all trade barriers. The discussion here will be confined to tariffs. Other forms of discrimination against Soviet Bloc nations are in the administration of quantitative controls over imports, and in the unwillingness of some western nations to allow unrestricted transferability of Soviet Bloc holdings of their currencies.

crease imports (thereby simulating the effect of a tariff reduction) from any nation in return for MFN tariff treatment from the nation. Since World War II, this arrangement has been employed widely by the nations of Western Europe to extend MFN tariff treatment to the nations of Eastern Europe and the U.S.S.R. The United States is a striking exception to this practice. MFN status was withdrawn from all of the communist bloc nations in 1951 and restored in 1962 only to Yugoslavia and Poland. Without MFN status, imports into the United States from the remaining communist nations must pole vault over the very high Smoot-Hawley Tariff of 1930, an almost impossible barrier.[41]

Bilaterally negotiated MFN relationships of the kind just described, are very far from an ideal approximation of how MFN is supposed to work. For one thing, it is usually not easy to identify the increase in imports which corresponds to a given reduction in tariff rates. This is a minor point, however; presumably the negotiating nations can and do reach agreement. More important, the device fosters bilateralism and is contrary to the "equal treatment" and "anti-discriminatory spirit of MFN as it has developed under GATT. This is because, under bilateral negotiations, there is no attempt to ascertain and, perhaps no way to ascertain, whether the increase in imports by the commmunist partner truly represents a specific increase in its overall imports or simply a diversion of imports from other Western nations. Furthermore, and related to this point, any Western nation which is a member of GATT, would normally expect that if a nation lowers its trade barriers to one GATT member, it will lower them by the same amount to all GATT members. This multilateralization of trade barrier reductions is not involved, of course, in the bilateral negotiations between capitalist and communist nations.

One way around some of these difficulties was suggested by Alexander Gerschenkron many years ago.[42] He argued that the U.S.S.R. should enter into negotiations not just with one western nation but with a large group of them simultaneously. In return for MFN status, the U.S.S.R. should agree to a global increase in its imports, which increase would be distributed among these nations on a basis of strictly commercial considerations. Apparently this suggestion has been adopted for it is reported ". . . that Poland was admitted as a full contracting party to GATT upon pledging an annual increment in imports from GATT members of at least 7 percent annually without a time limit . . ."[43] It is well worth noting that under present and foreseeable conditions, a Soviet Bloc nation which is granted MFN status is more likely than not to increase its imports as though it had agreed to an annual global increase—even if it had not. As noted in section II above, these nations with the exception of the U.S.S.R., hold almost no foreign exchange reserves, spending them as they earn them. Since intra-bloc trade is almost always perfectly balanced on a bilateral basis, foreign exchange earnings are spent in the West and presumably on the basis of commercial considerations except when discrimination is enforced by Western trading partners.

Poland's admission to GATT brings to three the number of Eastern European nations which belong. Czechoslovakia and Yugoslavia already were members; Rumania and Hungary are currently negotiating for membership. The Polish case does represent something of a breakthrough, however, for the "global quota" principle. Czechoslovakia was a member of GATT before it became a communist nation and holds its position through "heredity." Yugoslavia is a member by virtue of having converted to market socialism, thereby placing itself in a position to conform to MFN status by conventional means. Presumably, Hungary, with its advanced economic reforms, will attempt to follow the Yugoslavian road. Rumania and the other Soviet Bloc nations will be admitted, if at all, by the Polish formula. It is worth noting that the United States, presumably obligated as a member of GATT to grant MFN status to Czechoslovakia, does not do so.

The nations of the Soviet Bloc have argued that they are entitled to MFN status. They claim that they do, in fact, grant equal treatment to all nations in trade. In their way of thinking, the long-term trade commitments which characterize intra-bloc trade and which lead to greater intra-bloc than East-West trade constitute an advantage to a centrally-planned economy of a com-

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[41] This statement is relevant only to commodities subject to that Tariff. Many commodities are not, of course, and on these the communist nations can compete on an even footing.

[42] Alexander Gerschenkron, *Economic Relations with the U.S.S.R.*, New York, 1945 (published by the Carnegie Endowment for International Peace), pp. 37ff.

[43] Michael Kaser and C. F. G. Ranson, "Relations with Eastern Europe", in *Economic Integration in Europe*, ed. by G. R. Denton, London 1969, p. 93.

mercial nature. Hence, the apparent preference of CPE's for intra-bloc trade cannot be designated discrimination, they argue, since it has a "commercial" base. Further, MFN and equal treatment are not absolutes. Customs unions like the EEC receive exceptional treatment. The less developed nations are allowed to discriminate when in balance-of-payments difficulties. Exceptions are made by advanced nations for protection of domestic agriculture. The U.S. and Nato nations discriminate against the communist nations under the Export Control and Battle Acts and this is sanctioned by GATT. And so on.

There is certainly some substance to this position. However, there are at least two major difficulties with it. First, when one considers the absolutely gigantic shift in trade patterns which occurred at the time communist governments were established in Eastern Europe, it is hard to escape the conclusion that this shift was politically motivated and could not be rationalized in terms of commercial considerations. Consider that intra-bloc trade which constituted less than 15 percent of the total trade of those nations in 1938, has been between 60 and 75 percent of the total since 1950! Second, it is impossible to verify the importance of commercial considerations in determining the direction of Bloc trade both because these considerations are by and large not quantifiable and because the trade barriers used by the Bloc nations are implicit, not explicit.

Clearly, there will be no easy solutions to the MFN problem unless market socialism coms to predominate among the communist nations. Institutional differences between systems can only be imperfectly reconciled. Even the "global quota" technique, for example, probably results in some approximation to equal treatment in connection with increments to trade each year but does nothing in the short-run about the discrimination implicit in previously existing trade. Hopefully, as time passes, larger and larger percentages of Polish trade will come to be non-discriminatory. Unfortunately, there do not seem to be any superior solutions on deck at the moment. Given the differences in economic systems, one cannot expect the CPE's to multilateralize all of their trade, to give up their mutual trade agreements, or to institute drastic shifts over a short-time period in trade patterns. The dead hand of the past lies too heavily on their shoulders. At the moment, if western nations wish to use MFN to expand trade with the East, they can probably do no better than to adopt the bilateral and global quota devices described above.

The United States' unwillingness to negotiate MFN status with the communist nations (excluding Poland and Yugoslavia) can be analyzed very much in the same frame of reference that we have used to analyze control over exports and capital flows. I think it is fair to say that. U.S. policy is basically an act of economic warfare, although from the preceding discussion it is clear that it could be rationalized on technical grounds relating to equal treatment and non-discrimination. In effect, we attempt to hurt the communist nations, economically, by depriving them of export markets. From this point of view, it is largely equivalent to our export and credit controls. Like these other policies, it is largely ineffective since we pursue the policy without the support of other nations. Further, while the case of Poland is exceptional, the policy generally does not take cognizance of political differences among countries in the Bloc. Thus it would certainly be an act of gross stupidity if this country, after its recent overtures of friendship toward Rumania, and in light of Rumania's independent posture in the Bloc, were unwilling to enter into negotiations toward an MFN agreement with that nation! Finally, of course, our policy does involve an economic loss to ourselves in the form of foregone cheaper or more desirable imports and, in return, foregone exports. While in the shortrun these do not appear to amount to much, over the longer-run they might be not inconsiderable.

Dumping

The question of dumping by CPE's is a real one to western nations for one major reason. Because of planning difficulties, the CPE's often go to the world market to purchase commodities which they happen to run short of because of production failures or sudden changes in plan. To finance these extra purchases, attempts are made to export items which may be in temporary surplus supply or which are allocated to low priority uses at home.[44] Additional exports are

[44] Oleg Hoeffding has written a fascinating account of how the Soviet Union financed emergency imports of wheat in the early 1960's. See his: "Recent Structural Changes and Balance-of-Payments Adjustments in Soviet Foreign Trade", in *International Trade and Central Planning,* ed. by A. Brown and E. Neuberger, Berkeley, 1968, pp. 312–336.

usually necessary because convertible foreign exchange reserves are very scarce. Because exporting is urgent, and because the returns from imports are so great under these bottleneck conditions, exporting becomes profitable even at prices which involve a nominal loss (see Section II. F above). Under these circumstances, western markets may suffer disruption. Disruption is worth tolerating of course, where it leads to the long-run supply of a product at lower prices to the purchaser; it is not worth tolerating where it is a one-shot deal—a possibility under the circumstances outlined.

As indicated in Section II. (pages 6 and 7), it is almost impossible to tell when a CPE is exporting at below costs of production. It is easy enough, however, to judge when the CPE export price is below the market price of either domestic or other foreign suppliers. This is the comparison which must be relied upon, as a first approximation, to determine whether or not dumping is taking place. This is not sufficient evidence, however. For in order to enter Western markets, even with products which they are prepared to supply on a long-run basis, the CPE nations have often been forced to sell at below western prices. They do this not out of choice but out of necessity. Fundamentally, the foreign trade combines are profit-maximizers and their orders are to sell at as high a price as possible. They are not interested in market disruption for its own sake.

The problem, then, is to determine whether or not products which are being sold by CPE's at below normal market prices are a normal export or a crisis export. In the latter case, of course, the products should be subjected to a countervailing tariff under our anti-dumping laws. Generally speaking, however, where suspected dumping has been protested by injured enterprises in Western European countries, countervailing tariffs have not had to be resorted to—the problems have been ironed out through consultations. This has been particularly true of those Western European nations which have trade agreements with the CPE's. While we should be prepared to use our anti-dumping laws if necessary, it does not seem likely that such drastic action will often be necessary.

PART IV. POTENTIAL ECONOMIC GAINS FROM TRADE LIBERALIZATION

There is a tendency to understate the possible gains to the United States from liberalizing trade with Eastern Europe and the U.S.S.R. because our trade with them has been so minute. In 1967, for example, our trade with these nations amounted to roughly $200 million each way (of which about 25 percent was with the U.SS.R.), just a fraction of one percent of our total trade. In fact, if trade had not been so severely restricted over the past 20 years, the picture would undoubtedly be substantially different. In comparison, for example, Western Europe's exports and imports with the European communist nations in 1967 amounted to $4.4 and $6.4 billion respectively. It is impossible to say just what part of this trade would have fallen to American enterprise had it not been for the differential between ours and Western Europe's trade and credit controls, but it is not improbable that our exports might by now have reached close of $1 billion annually, our imports somewhat less. John Michael Montias recently pointed out that "... if this country could direct the same fraction of its machinery and equipment exports to the area as it did in 1928 these exports would rise from the present $64 million to $606 million. . ." [1] Using a technique which measured our general competitiveness with Western Europe in markets for machinery, equipment, and metals and metal manufacturers in 1962, Mose Harvey came to comparable conclusions.[2] To these can be added, of course, hundreds of millions of dollars of exports of other products including our agricultural surpluses which could well compete with the very large Canadian and Australian exports to Eastern Europe, the U.S.S.R. and China. Liberalization of our trade policies toward the communist nations would enable us to gradually reassert our position in trade with them although it is unlikely that we would ever again recapture the total markets projected above.

Two other possible sources of increased exports exist. The extension of loans on acceptable terms would certainly lead to a roughly comparable expansion of exports. The second possibility is greater trade with the Soviet Block at the ex-

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[1] See his "Statement" before the Subcommittee on Foreign Economic Relations of the Joint Economic Committee on December 9, 1970.

[2] Moses Harvey, *East-West Trade and United States Policy*, New York 1966, pp. 49–50.

pense of intra-bloc trade. As we have already noted, intra-bloc trade presently amounts to more than 60 percent of their total trade. This is excessive by any measure. Any weakening of political ties within the Bloc or rationalization of foreign trade decisions is bound to increase East-West trade at the expense of intra-bloc trade. In fact, over the past 10 years, intra-block trade, as a percentage of the total, has declined by about 10 percent. Rumania's with the Block has fallen by an even larger percentage. The extent of possible gains to the United States at the expense of intra-block trade must not be exaggerated, however. First, we will have to compete with Western Europe for any diversion which develops. Second, any net increase in imports from the West by Bloc nations depends completely on additional sources of convertible currency obtained either through increased exports to the West or loans. The Bloc nations have not been notoriously successful in shifting their exports from East to West. Their competitive abilities have been blunted by the nature of their systems (cf. Sections II. C. and II. E above) and their 20 years adaptation to meeting each other's needs under long-term trade agreements and in protected markets.

A substantial liberalization of trade controls could provide this nation with a special set of benefits which might be viewed as defense-related. Recall that after World War II, tariffs on imports of watches were presumably designed to protect that industry in order to maintain intact a labor force with specialized skills useful in defense industries in case of war. At present, there is a very high level of unemployment among engineers and scientists who typically are employed in high-technology and defense-related industries. This nation has many peaceful needs to which the talents of these people could be applied. Unfortunately, very little effort is being made along these lines and the situation is apt to get worse rather than better in the foreseeable future. Liberalization of trade controls followed by appropriate marketing efforts could provide a substantial amount of employment for highly skilled workers in these categories and thereby prevent the deterioration of an important American defense-related resources, not to mention the gains to the individuals concerned as they are spared a serious psycho-social as well as economic adjustment.

So far, we have concentrated on the gains to be had from increased exports to the Soviet Bloc. The counterparts of these gains are to be had in two forms: more and cheaper imports and/or an improvement in our balance of payments position. Potential gains from both of these sources are obvious enough not to need elaboration here. It is perhaps worth noting that the nation in the Soviet Bloc from whom we import (as well as export) the most is Poland, the one nation in the group which enjoys MFN status with the United States.

Mr. Ashley. Thank you, Dr. Holzman.

Our final witness on the panel this morning is Dr. Robert W. Campbell, professor of economics at Indiana University. Dr. Campbell is the author of "The Economics of Soviet Oil and Gas," a contributor to a compendium of the Joint Economic Committee, "Soviet Economic Prospects for 1970," on "Some issues to Soviet Energy Policy for the 1970's."

Dr. Campbell, please proceed.

STATEMENT OF DR. ROBERT W. CAMPBELL, PROFESSOR. DEPARTMENT OF ECONOMICS, INDIANA UNIVERSITY

Dr. Campbell. Thank you, Mr. Chairman.

The matters that you have mentioned as of great interest to the subcommittee—the expansion of commercial relations, particularly in regard to transfer of technology and the extension of credits—are extremely important matters, matters of great interest to me. I am very pleased to have a chance to present a statement to the subcommittee.

On the other hand, these are extremely complicated issues, and I fear that I must put some points rather simply, without all of the

qualifications that they perhaps deserve. But if I state some things in an oversimplified way, discussion can perhaps correct them later.

First, let me corroborate the opinion expressed by Professor Levine that an emphasis on productivity increase through technological progress is an extremely important part of current Soviet hopes for restimulating their growth. The traditional approach, depending upon the growth of inputs, is simply not possible any longer; and so, in many aspects of their planning they are trying to accelerate the rate of technological progress. They can seek technological progress in two quite different ways: One is through their own research and development efforts, supported by economic reforms to enhance innovative behavior; or, alternatively, through the importation of foreign technology.

There are many reasons why the Soviet system has not thus far compiled a very successful record on domestic, indigenous technological progress through the efforts of their own research and development establishment. I think these are weaknesses deeply embedded in the system; to eliminate them would require changes that it is very difficult for the leaders to accept. I think the possibilities of reforming the system to accelerate technical progress through internal efforts seem very limited to the leaders, hence their emphasis on current expansion of trade relationship, and on trying to import foreign technology.

These developments have caused much concern in the United States, prompted by the question whether we are not perhaps giving up an important commercial, perhaps strategic, advantage in permitting our technology to be licensed, sold, transferred in some way or another to the Soviet Union. Along with this concern, there is a view that we could perhaps stop their growth, we could sharply curtail their rate of technical progress by exercising more care in business deals that would involve the transfer of technology.

In my view, this interpretation exaggerates the power that we have to control the rate of technical progress, or to control the rate of diffusion of technology to the U.S.S.R. I believe that it also somewhat overstates the ease with which this seemingly attractive policy can actually be carried out by them.

I would like to mention in fairly brief terms a number of considerations that lead me to this conclusion.

First of all, technological catchup through the importation of advanced technology is a much more complicated and difficult task than it might seem. Technology can be transferred in numerous ways: the importation of finished products; technical cooperation agreements; rather intimate interactions between Soviet firms and American firms. But I believe that there is a rather strong correlation between the ease with which those types and channels of technology transfer can be used and the impact they have on the economy.

At one level it is fairly easy to import and utilize technology already embodied in equipment and products. To take a couple of examples from an area I know something about—oil and gas—the Russians have imported large amounts of large diameter pipe for laying gas transmission lines. This is a form of importation of technology. If they had to build these pipelines with pipe that they themselves rolled, in

terms of quality and size, if they were limited in that way, they would be transmitting their gas at higher cost than they can with this more technically advanced type of pipeline. The same sort of thing with numerous other types of technology in the oil industry—submersible pumps, drilling equipment, bits, and so on.

On the other hand, although this may be the easy way to import technology, it is not really a very satisfactory way in the long run. First, it is rather expensive. As you are going to upgrade a whole sector in this manner the foreign exchange drain will be very large. The alternative, of course, is that you expect to import some to become familiar with the technology embodied in these more advanced products, and then to copy them. But I think that is a much more difficult thing to do than one imagines.

The real problem is that it involves the Russians in precisely all the kinds of difficulties that led them to try to import technology in the first place. They know about the existence of large diameter pipe; they know how Americans find, produce, transport oil—why have they not already copied this experience? Well, it is because of the problems of actually mastering the production of the relevant kinds of equipment, and those problems do not go away just because you imported one pump that you can look at or because you have visited one American factory or because you have one symposium or seminar with engineers from an American firm in which you discuss these issues.

An alternative way of importing technology, of course, is to import much more fundamental, general, universal types of technology; not import the pipe, but import a plant or the machinery to roll large diameter pipe yourself. Instead of importing the computers, the alternative might be to import the technology for producing certain crucial elements of computers—integrated circuits, the peripheral equipment, and so on.

I think, however, that when the Soviet Union tries to do this, it turns out that the problems are much greater than they seemed. There are many problems of melding a new technology into an existing system. There are all kinds of interfaces. The importation of a turnkey plant is very unlikely to give the Russians the same kind of productivity in the production of whatever that product is if they cannot meet the maintenance requirements, the requirements for staffing—in terms of skills—the requirements in quality of the raw materials processed, and so forth. Many Western firms that have been engaged in these kinds of arrangements report that the Russians get from turnkey plants very much lower productivity than the designers of those plants expected that they would.

What the Russians would really like to import from the United States, of course, is the "secret" of technological dynamism, and that is the part that is virtually impossible to import.

Now among the variety of technological arrangements they make with Western firms, this is discussed as one possibility: a rather intimate relation involving coproduction, buy-back arrangements, or technological cooperation in the development of a product. This kind of interaction is what it takes to be effective in the process of borrowing. I think the difficulty from the Russian point of view, however, is this is a kind of intimate involvement that they themselves will reject. They

think that somehow they can import the secret of technological dynamism in an antiseptic, handsoff manner. I think it is very difficult for them to change their system in such a way that an effective technological transfer mechanism can be established and made operative.

One other general consideration; I suspect that the obstacles to technological transfer to the Soviet Union are greater today than they may have been in the previous couple of decades or, in particular, during the 1930's. The Soviet economy today is a much more highly bureaucratized and a larger system. The importation of technology is now a very much more difficult way to upgrade the average level of a branch than it was when a branch or industry was very small. It is a very simple quantitative point. If you have one plant in an industry that is unproductive and works by old technology, and you import one plant with double the productivity; you can raise the average level of productivity by one-third. The next step involves a much smaller increment even if subsequent importations involve further rises in technological level. It is not only a matter of quantities involved, it is a matter of the bureaucratic habits, the organizational rigidities, that get built into an industry once it has been in existence for 20 or 30 years.

A second general point that leads me to believe that we have less control than some might think over the rate of Soviet progress through withholding technology is that there are many substitutes for technology; there are many ways of doing any given thing. Withholding the most advanced technology may make things more expensive and keep productivity lower, but that does not mean they cannot be done. I believe this is very relevant to one of the most important relationships now under consideration: namely, the development of Siberian oil and gas resources.

I think we have permitted the Russians to appeal to one of our prejudices. They come to us and say we badly need your help to do this, along with credits, and we feel this confirms our low opinion of their capacities. But the Russians can do it themselves. They describe to us all of the complicated difficulties in developing Siberia; and we repent them—permafrost, swamplands, huge distances, terrible climatic conditions—but the fact is that the Russians have themselves already coped with many of those technical problems. They have many technical problems in doing so; they meet the tasks with a less advanced technology, but they have raised West Siberian oil output within 10 years from 0 tons to 85 million tons—and that is with their own technology rather than American.

Now I think that some of the other oil and gas deals involve perhaps harder problems for them to cope with—offshore exploration, for example; and some of the most northerly gas fields may pose more difficult problems for them. But I think our ability to limit their development by holding back technology from them is less than we might think, and this oil and gas example is a good illustration.

I need not dwell on, but simply repeat my agreement with the point already made that there are many alternative sources for technology available to the Soviet Union. Technology is a very fugitive sort of phenomenon in the modern world, not the kind of thing that can be locked up in a dark room. It does not consist of hardware; it does not consist in one man's mind; it does not consist in one set of drawings.

It is a very difficult thing to pin down, and it diffuses through many channels and throughout the whole world. There may be cases where we have something that nobody else can supply the Russians with, but I think this tends to be exaggerated.

I would also like to mention the question of the self-interest of American firms. We sometimes speak as though they operated blindly in pursuit of profit, that they cannot think ahead more than 6 months, that they are totally unaware of what the consequences for their international competitive position might be for selling technology. Although I can agree to an extent with the theoretical point that the private interest is not necessarily the same as the national interest, I think we often underrate the firms' concern about their own competitive position, their careful evaluation of the risks involved for them in any one of these deals. In the companies I have dealt with, these men have a very lively appreciation of what the potential consequences might be, what the risks are; and they are not innocents. They realize that they are profitmaking institutions—charity is not their business.

Finally, the most important consideration—and it is a very general consideration, often left out of account—is that trade provides mutual benefits for both sides. I think what really bothers us in relation to the Soviet Union is that there are a number of asymmetries in this.

We see, first of all, that what we are going to get back from the Soviet Union is nothing in the way of technological advancement. There is some feeling that technology is a more valuable kind of thing in trade than anything else, so that they are getting the better part of the bargain. But that is just the way comparative advantage works. America's role in the world, its dominant role as a producer of new technology means that our comparative advantage is in knowledge and technology, whether embodied in products or in equipment to produce products. That is where our advantage is and that is what we have to trade to the rest of the world. The nature of comparative advantage is that we are going to get back something different.

Another asymmetry that bothers people is that the Soviet Union is organized as a monopoly-monopsony, facing many firms in many different countries, and as such may be in the position to extract an unduly large share of the gains from any trade arrangement. Well, I think there certainly is something to that, though I think I would interpret the first part of my statement as devaluing somewhat the assertion that their gains are going to be that overwhelmingly large.

The last asymmetry that bothers people very much is an asymmetry in time, an imbalance in time. We provide commodities, as in wheat, or technology, in the form of equipment or the experience of American firms in organizing say, the liquefaction of natural gas, with the return to come much later. The gap is bridged by credits, of course. This is, to me also, a very worrisome asymmetry. I think it is one that really deserves very careful thought. I see the answer in more or less the following way: the Soviet formula in touting an expansion of trade is that trade is mutually beneficial. That is a platitude, but I think our bargaining stance should be to accept it enthusiastically and then insist on it at every step of the way. If it turns out that in something like the gas deals, the balance of risks and gains, consider-

ing the postponement of the repayment, is such that an American firm finds it doesn't get benefits as good as those it seems to have for the Russians, we should not do it. Or, if it becomes beneficial only because the company can shift a large share of the risks onto some other organization—such as the Export-Import Bank—then I think, again, such a deal needs to be rebargained.

Very important in any bargaining arrangement, of course, is some understanding of what the bargaining limits of your partner are—and here I repeat what was said here once before today. I believe that the Russians, in view of the big windfall in the price of gold and the price of oil that they have come into in this last year, will find technology transfer valuable even though they are required to bear a larger share of the risks. I think they could pay as they go for a much larger share of these technology imports. It seems to me this is a perfectly reasonable thing to insist on. It may require internal adjustments in their economy; it may be less advantageous for them, but that is not our problem. I think our bargaining strength in this is such that we can insist on terms that give as much advantage as the Russians will receive.

Thank you.

[The prepared statement of Dr. Campbell follows:]

PREPARED STATEMENT OF DR. ROBERT W. CAMPBELL, PROFESSOR, DEPARTMENT OF ECONOMICS, INDIANA UNIVERSITY, AND CONSULTANT TO NATO

TECHNOLOGY TRANSFER IN EXPANDED COMMERCIAL RELATIONS BETWEEN THE U.S. AND U.S.S.R.

I understand that your subcommittee, in connection with its consideration of international economic policy legislation is inquiring into the U.S. national interest in expanded commercial relationships with the USSR, especially those kinds of deals that involve the transfer of technology. These are matters of great interest and importance, and I am pleased to be called on to discuss them. This short statement presents some of the considerations that seem important to me, and that we can expand on in discussion.

There is little doubt that one of the primary elements in current Soviet growth strategy is an effort to accelerate the growth of productivity through technological progress. The traditional Soviet approach to growth, heavily dependent on expansion of the labor force and the stock of capital, and only secondarily on productivity increases, has had to be amended in the light of current demographic factors, and the apparently increasing ineffectiveness of capital injections in raising output. Current hopes for stimulating growth place significantly increased emphasis on productivity improvements, which in turn depend on the acceleration of technical progress and the modernization of existing technology. As the Eastern Europeans say, there is to be a shift from "extensive" growth to "intensive" growth.

The Soviet planners can seek technological progress in two quite different ways—through their own research and development efforts, supported by economic reforms to enhance innovative behavior, and through the importation of technology from abroad. For numerous reasons the Soviet system has not had a good record on internal innovation and technical progress. Though the USSR spends large amounts of resources (about as much as we do) on research and development, the payoff in technical progress seems rather meager. Given the difficulties of overcoming these weaknesses, and the leaders' caution about fundamental economic reform, they are currently placing great hopes on importation of technology from abroad as a shortcut. Technological borrowing involves a great variety of activities—importation of technology embodied in equipment and in whole production complexes, the purchase of licenses and knowhow, scientific and technical co-operation agreements both with governments and with firms, and more intimate involvements with western firms combining western technical and

managerial assistance with co-production, buy back arrangements, and joint marketing in third countries. This latter kind of agreement has been less favored by the USSR than by the Eastern European countries.

These developments have caused much concern in the United States as to whether the transfer of technology to the USSR is in the interest of the United States. Specifically, some critics ask whether we are not giving up a palpable commercial and strategic advantage, and strengthening the hand of an adversary. By selling the Russians technology, we help them to realize their strategy for accelerating their growth rate, and to expand the resource base for carrying on their rivalry with us. Indeed, goes the argument, we can condemn them to technological stagnation, general pressure on resources, and slow growth by withholding our technological secrets from them.

In my view, this interpretation greatly exaggerates the power that the United States has to control the rate of technical progress in the USSR and other communist countries, and exaggerates the gains they can make from technological borrowing. Furthermore it ignores the fact that trade is a two-sided affair. Exchange takes place only when it is mutually advantageous, and we must weigh the many gains we can realize from it against the gains we think the USSR is getting out of it.

1. Soviet Difficulties in Absorbing Foreign Technology

Technological catch-up through importation of advanced technology from abroad is a more difficult task than it might seem. Among the great variety of correlation between the ease of adaptation and the effectiveness in raising overall technical levels. The things that are easiest to transfer have the least impact on the general level of technology. What the Russians would really like to import is the "secret" of American technological dynamism, which they could turn into rapid progress and an independent technological capacity to rival our achievements. But that is what is virtually impossible to import and inculcate in the Soviet economy just because that "secret" involves so much more than specific gadgets, patents, and processes.

At the lowest level it is relatively easy to import and utilize high technology *products*—examples in the energy sector might be large diameter pipe for pipelines, submersible pumps for raising the productivity of wells in depleted oil fields. The pumps can be bought, installed in the Soviet wells, with an immediate rise in productivity. The pipe can be imported, laid in pipelines, and gas transmission can be carried on at a level of efficiency that would not be achieved if the borrowing were limited to the diameters and qualities they could roll themselves. Even at this simplist level, however, there are likely to be "interface problems"—the new technology must be integrated into an existing system. It is necessary to train people and adapt the equipment that cooperates with the imported elements. And of course this may be a very expensive way to improve technology—if the new product is to be widely used throughout the sector concerned, very large volumes of imports may be required, with large balance of payments problems for the importer and corresponding gains for the seller. An alternative is to copy the imported prototypes, but that involves the Russians in all the problems they were apparently unable to solve before. There is less magic in this solution than appears at first blush.

One way out is to move to higher levels—to obtain from the more advanced country not the pipe but the plant to produce it, not computers to use or to copy, but equipment to produce integrated circuits, to be used in producing modern computers domestically, not chemical products, but the plants that embody the technology for producing them. Any move in this direction makes the problems of adapting and integrating the technology become much more complicated. It is quite common for turnkey plants provided by western firms to operate much below the levels of efficiency their designers envisaged because the Russians inflate their workforce, do a poor job of maintenance, fail to meet the quality requirements in the materials they process and so on.

The more the borrowers try to go to fundamental, universal, protean elements of technology,—the computer that can revolutionize all branches of industry, integrated circuitry that can revolutionize not just one product, but the whole electronics industry—the more difficult and intractable these problems of adaptation, diffusion, and integration become. The computer is perhaps the prototypical case. It has sometimes been said, only partly in jest, that when one thinks of the problems the Russians have in getting computers maintained, in fitting them

into their procedures and systems, and providing the software and modeling support, the large scale importation of western computers would do more to set back the progress of Soviet planning and management than anything else one could imagine. If these general kinds of technology are to have much impact they must be accepted and adapted in a great variety of using sectors, the associated products and processes must be redesigned to use the new inputs and principles. In short, technological transfer at this level, to be effective, requires precisely what is lacking in Soviet internal innovation efforts and which turned them to the borrowing road in the first place.

The diffusion of technological advances across departmental barriers in the Soviet hierarchical system, from enterprise to enterprise and from sector to sector, is very weak. This is easy to show and understand for transfer from the high technology military and space sectors to the civilian sectors, but is also true for transfer within the civilian sector. The research organization that cannot get enterprises to utilize the new technology it has developed, the inabiilty of those producing new equipment or products to persuade users to buy it, the lack of interest shown by enterprise A in adopting the improved practice of enterprise B are all commonplaces of Soviet experience.

There are good reasons for supposing that the obstacles to technological transfer are greater today than in the past, and the effects smaller. In the past borrowed technology was often used to create or modernize sectors that were nonexistent or small, so that the burden of bureaucratic inertia and vested interests was much less formidable, than they have become today. Also we can expect the effects on the average level of technology to be smaller. The traditional strategy of extensive growth has been to use borrowed technology to upgrade an industry at the margin. That is, new productive capacity embodying the new technology was added to existing capacity without fundamentally changing the latter. Suppose a case where factor productivity under the new technology was double the old: doubling output by adding one modern plant would raise the average productivity in the sector by one third. Successive additions, even if they represent still further technological improvements will have a less powerful affect on the average because they are diluted by a larger stock of unmodern capacity compared to the increment. One might attempt to diffuse the technological advances to all enterprises in the sector, but this is a process that is less susceptible to high level direction, and runs into contrary vested interests and the reluctance to scrap existing capacity.

2. Technological Gaps Impose Costs, Not Barriers

Soviet technological weaknesses are usually not absolute limitations, but are related to costs and priorities. One area often cited as requiring U.S. technical assistance is the development of Siberian oil and gas resources. Conditions of climate and terrain in these areas are very unfavorable, involving permafrost, swamps, harsh winters, and transport problems. There are weak links in the Soviet technological armory for coping with these problems—in drilling equipment, transport, compressor stations, and others. But it seems to me a complete misinterpretation to conclude that the Russians cannot handle these problems without outside assistance. They have already built and are operating big pipelines in permafrost areas; they have finished and are operating a very long, large-diameter oil pipeline to bring the oil of Samotlor through the taiga and across the Ural mountains to Al'metevsk. In ten years they have expanded Tyumen oil output from nothing to 85 million tons in 1973. They have drilled millions of meters of wells in Siberia and have completed hundreds of exploratory and production wells. Whatever their technological weaknesses they have managed to accomplish all this, and moreover have done so at a manageable cost—in the Ninth Five Year Plan Siberia is taking only about 10 per cent of all investment in the oil and gas industry.

Admittedly the problems are more severe in developing the northern-most gas fields and in exploration offshore. The Russians have limited experience and equipment for offshore exploration and production—their offshore work in the Caspian has been done mostly from stockades, artificial islands, and they have only recently produced a mobile offshore drilling rig. But the proposition I want to emphasize is that although technical assistance from foreign companies will undoubtedly accelerate and cheapen this kind of endeavor, a boycott on outside help would not basically interfere with it.

3. Alternative Sources of Technology

In thinking about U.S. policy, it is important to remember that the United States is only one source from which the Russians can import advanced technology. High technology is a fugitive commodity, very widely dispersed throughout the world, and originating in many sources. If the Russians do not succeed in getting it in deals with U.S. firms, there are many other ways they can get it.

4. The Interest of U.S. Firms in Self Protection

Obvious though the point may be it is not superfluous to remind ourselves that the American firms that will be the partners in technology transfer processes have a lively sense of their own commercial interest, and enter into technology transfer deals because they see themselves as getting something substantial out of it, not because they see themselves as charitable institutions. They are not innocents, they know the value of their technology, and in fact the studies that have been done have shown that most technological transfers take place because the firms want to realize the largest possible return on the resources they have put into developing advanced technology. In my experience with the representatives of American companies, they seem to be fully aware of the risk there may be in long term arrangements with the Russians, and they evaluate carefully the obvious consideration that technological transfer may generate competition for themselves by transferring technology. In general they count on their own continued dynamism to guarantee them against such dangers.

5. The Mutuality of Benefits from Trade

Trade is a two sided transaction that takes place only if both sides gain something. It is true that there is an asymmetry with respect of technological transfer in any expansion of our trade with the Russians—it would certainly be mistaken to think that we will get much in the way of technology back from them. America's role as the dominant creator of new technology in the world means that technological knowledge is one of the main things we have to sell, and it is in the nature of comparative advantage that what we get in return should be something different. The business firms involved are motivated by private goals—profits for their stockholders, work and income for their employees—but ultimately the return to our society will be in terms of goods needed by American producers and consumers, especially energy and raw materials. It is also often said that there is an asymmetry in bargaining power; that the USSR as a monopolist-monopsonist can capture an undue share of the gains from trade by playing off many firms in many countries against each other. There is something to that, no doubt, though the first part of my statement can be interpreted as devaluing somewhat the advantage the Russians get from technological transfer. The most worrisome aspect of expanded commercial relations with the Russians is an inbalance in time in the proposed exchanges. In the biggest deals the Russians want the goods now, to be repaid in gas and oil in the future. The usual answer that the Russians have in the past been punctilious in meeting their commercial financial obligations is not completely assuring when the prospective credits are to be on so unprecedented a scale.

The Soviet formula in advocating an expansion of trade is that it is mutually beneficial, and it seems to me our bargaining stance should be an enthusiastic acceptance and dogged insistence on this platitude. If the size of the credits and the delay of the returns for the energy projects are such as to make them unattractive to the firms involved, unless there are large government guaranteed and subsidized long-term credits, then there is some doubt as to the mutually beneficial character of the deals. Success in bargaining depends on some insight into the other fellow's limiting terms, and it seems to me there are ways the Russians could pay "as they go" for more technology imports, especially given the windfall they had in the rising price of energy commodities and gold. This would indeed require some reallocations in their economy, but it is not incumbent on us to relieve them of that problem or to finance their economic expansion.

In short, there are benefits to be divided with the Russians here, and given the value to them of the technology we have to offer, there is no inherent reason we should not be able to get our fair share of these gains. It seems to me that the attention of government policy makers should be focused on that goal, rather than on denying technology to the Russians by a primarily defensive and backward looking policy.

Mr. ASHLEY. Thank you, Dr. Campbell.

We will now proceed with the questioning.

Mr. McKinney?

Mr. McKINNEY. Gentlemen, I would have to say that I have never been—in the 3 years I have been on this subcommittee—as collectively impressed as I was by the presentation of all of you this morning. I am beginning to feel that a bachelor of arts is hardly the equipment for this type of subject.

Dr. Levine, I had some questions briefly—I was absolutely staggered by your figures of fall off in productivity.

Dr. LEVINE. This is productivity growth.

Mr. McKINNEY. Yes, productivity growth. That is a pretty sad signal for almost any economy, whether it is totalitarian or free.

Could this be a fall off because of leakage in their system into a black-market structure, or into a "theft" structure? Would that be part of the problem, do you suppose? Or, is it a problem of Parkinson's law just taking total effect in their government and in their economic structure?

Dr. LEVINE. We find it very difficult to handle in any meaningful quantitative way the first issue that you raised. Not only is there an issue of losses through theft and other sorts of use of State property, but there is a long standing recognized problem by those of us who study the Soviet economy, but yet no solution to it, and that is that when you have an incentive mechanism that depends upon the data reported by the performer, you are putting tremendous pressure on that performer to adjust the data to the reports. That is, we would be foolish—and I do not want to make any political implications by what I am about to say—but we would be foolish to use data supplied to the Internal Revenue Service as our national income account; and yet in a sense this is what the Russians are involved in. So that there is a double issue of problems of falsification. But I really cannot answer your question.

Mr. McKINNEY. Well, we in the Congress are used to the Pentagon sort of fixing the data to fit the situation.

Dr. LEVINE. And you discount——

Mr. McKINNEY. You discount a certain amount.

Dr. LEVINE. There has been in the literature at one point, one Soviet economist has called for a moratorium on "We know that they know that we know that they know" that we discount, so we will discount, and that sort of inflationary process.

But your second question, or the second part of your question; I think what has happened is that they have gone a long way with the original model—after all, Soviet economic growth, since the introduction of the 5-year plan, has, even in its world context, been very impressive. But that model was useful in an early catchup stage when things were simpler, when objectives were simpler, when technology was simpler. But once the Russians, in a sense, accomplished what Stalin set out to accomplish—parity with the West—assuming the military sense of protection for the Soviet Union—then things got much more confusing. The economy got larger, harder to handle. Yet the reform has not bitten deeply into it, and I think what is happening is that they have been running that old model just too long, and they

know it. They are getting decreasing returns from just keeping that capital stock growth and keeping that labor supply growth.

Mr. McKinney. One question, if any of you can answer, is that we hear a great deal about intellectual dissent now within the Soviet Union; the exposure of the Soviet Union to the outside world is increasing rather rapidly. What is the economy situation as far as domestic material demand is concerned?

In other words, are the people of the Soviet Union going to require, as we often say, more and more butter? Is the system going to have to supply that butter and stop spending as much of its growth product on guns as it now does?

Dr. Levine. I think there is a tendency for all of us to take a rather shortrun view, that the Communists are in total control, and that this is a politically determined system. I think if you take a much longer view of Russian history, this is, as I tried to say, a society that has been trying to catch up with the West for centuries.

I have a feeling—it is not a general feeling in the profession—but my feeling is that the Soviet leaders are not nearly in as much control over the issues that you are talking about especially in regard to the elite. I think if you are talking about mass consumption, that they still have a lot of dictatorial control over; but they have got a lot of people who, in a certain sense, have access to power and they have contact with the outside world. Many of them have traveled; all of them know people who have traveled. These goods come in—if any of you have been to the Soviet Union, these hard currency stores bring in foreign goods. They know what is available in the world. I think the pressure for butter from these people, upon whom the regime depends—and this is real pressure, a political pressure—and we have not quite organized our thinking about what this means in terms of the operation of a dictatorship.

Mr. McKinney. Do any of you other gentlemen want to comment on that subject?

Dr. Campbell. Well, you know, from the economist's point of view, it is very easy to look at how the Soviet system functions and say there is no way the populace can really exert its demand for a higher share of GNP to be diverted into consumption. I think from a technical sense, that is right. I think the problems may be a little bit deeper; that even in the thinking of the leadership, there is a shift of priorities. The legitimacy of the party has always been founded on the notion that it was the only organization in this terribly undisciplined society that could undertake the task of protecting the Nation and catching up with the advanced countries. So, they always told the people that our first task, comrades, is to build the material technological basis of communism to catch up with the advanced countries in an historically short period. That is why you must live in one room and eat black bread. Well, they have now come to a point where they have more or less caught up in a military sense. Their investment program is bigger than ours. Their expenditures on research and development are as large as ours. In other words, they have caught up in everything except the promises of consumption. So I think even in terms of taking the party's own view of its goals there is a shift in priorities that is perhaps more important than direct pressure from the populace.

Mr. McKinney. There is somewhat of an historical imperative, in that a nation that does not satisfy its citizens' needs ought to be looking outward. In other words, looking for conflict to say, well, we still have to keep you in the one room eating dark bread because we have this war.

Dr. Campbell. Well, I think that is a danger, yes.

Mr. McKinney. I think I have overburdened my time, but if any of you gentlemen would like to answer further, I would appreciate that in the record.

Dr. Holzman. I would just like to say one word; that despite the fact that the consumer has not been the high priority sector, the rate of consumption of the masses has risen very substantially since the end of World War II. I think it compares favorably with the rise in almost any other country. So, what a satisfactory standard of living is, is, of course, a very complicated thing to define. If you compare them with us, of course, it is very poor. But in their own terms, their standard of living has increased pretty rapidly.

Mr. McKinney. However, even though they may be making military trucks—say, 100,000 military trucks—sooner or later the average citizen walking down the street is going to say when are they going to stop making all those military trucks and making what I can ride around in. Just from the fact that he sees that many more trucks, he knows that it is a common, available source of transportation.

I have used up too much time; I am sorry.

Mr. Ashley. Mr. Frenzel.

Mr. Frenzel. Thank you, Mr. Chairman. My thanks to the panel for an excellent presentation.

Dr. Levine and Dr. Campbell have both indicated, I think, in slightly different ways, or maybe in the same way, that the Russians could afford to pay for what they bought—at least at current levels—from this country, rather than relying on credit from the Export-Import Bank or other credit sources.

Dr. Levine, you said that they had a $1.7 billion annual income and gold stocks, in excess of $11 billion. Is that number verified, and do we have any confidence in it?

Dr. Levine. I think we do. It is a U.S. Government figure. It is published—the stock has been published in recent JEC Compendium, in an article by Farrell. It is a very interesting article, and it traces down the changes in the gold stock from the late 1950's to the present period.

The $1.7 billion on the current sales was really the value of the current flow of production, which is important. Apparently they sold their whole current flow last year. From what I gather in talking to people who know things about the gold market, they cannot possibly keep doing this at that rate. But still, you have got a gold flow that you perhaps can sell without decreasing your stock.

Also, the question of how long this free market price of gold is going to last is, of course, an open question.

Mr. Frenzel. I thank you.

Dr. Campbell, are you of the opinion that the Russians can do business with you without benefit of Eximbank financing?

Dr. Campbell. Well, I think one has to distinguish long run from short term normal commercial credit; but, yes, I think they could.

To add a quantitative dimension to the permit about the oil windfall, their exports of oil to hard currency parts of the world is something on the order of 40 million tons. Now, that is something like 300 million barrels, and if world price levels for oil go from, let us say, \$3 per barrel to \$15 per barrel, there is a windfall gain there of \$3–\$4 billion. These are very significant amounts. That eases the problem of doing it on their own.

Mr. FRENZEL. I agree except when there is another source, a 6⅜ percent loan from the Japanese for a billion dollars. Then I guess we are the next alternative down the line, if we insist on cash.

Dr. CAMPBELL. Well, I think it is a question of what we have to sell. If our technology is really that distinctive and that valuable, then they will be willing to pay more for it and accept our terms, it seems to me. If it is not that distinctive and valuable, then what are we worrying about. That is the sort of dilemma I find myself in.

Mr. FRENZEL. Well, I think there must be things that we sell that are of relatively the same value as similar things produced elsewhere. Perhaps we grow more wheat per acre and that sort of thing. Maybe we are highly productive, but our bushel wheat is about the same as an Argentine bushel of wheat or a New Zealand bushel of wheat. What leads us to believe that we can sell it for higher price or without credit, if somebody else is willing to extend credit?

Dr. CAMPBELL. That is the asymmetry I was talking about. We have competitors, and that is right.

Mr. FRENZEL. You think we should be competitive, but we can drive a harder bargain than we have?

Dr. CAMPBELL. That is right. You see, one element in the Western European and Japanese alternative is that they also have discussions of how much they should let the Russians go into debt to them. It is not all that easy for them, either, to continue subsidized financing for technology transfer.

Mr. FRENZEL. Thank you.

Dr. Levine, is that your thought, too? That we could drive harder bargains than we have?

Dr. LEVINE. Yes. I wonder if I could return to this latter question that you asked?

Mr. FRENZEL. Yes.

Dr. LEVINE. There are two issues, two additional issues, that I think are of some importance when you talk about Soviet importation of essentially investment goods, where you would include also technology, as such, as an investment good. If the Soviets are going to pay for it directly, then it means, in effect, that they are doing this investment. They are reluctant to do this; their rate of investment is already very high. In the pressure to devote more resources to consumption, they try to avoid this in terms of whether it is possible for them to do it themselves, given the power of the dictatorship; and the answer is, yes, it is possible. Given the second point, whether they can get the hard currency resources to pay for the hard currency investment goods and technology, but following the Schelling approach that Professor Holzman used, you might say that it is to our interest to let them use us for producers goods and let them build up their commitment in their own productive stock to the production of their own consumers goods. This is, I think, a useful strategy from our point of view. Again, there

are no guaranteed results in any of this business, but I think that is in an interesting direction which would lead one to say that if you want to buy producer's goods, that it is to American interest to use Eximbank credits.

Mr. FRENZEL. Thank you.

Mr. Sutton, you gave us a message that said you cannot use or you should not use economic weapons for diplomatic ends, and in the long run you will come a cropper if you do. Oh, that was Dr. Holzman. I apologize.

I scratched down three examples, and I wonder if they would all fit your pattern: the Soviet Jewry amendments on the trade bill; the Rhodesian chrome embargo; and our embargo of Cuba. Would these all be examples of counterproductive efforts in the long run?

Dr. HOLZMAN. I do not know much about the Rhodesian case. I have always felt that the Cuban embargo was a mistake; that we could have had a friendly Yugoslavia, rather than an unfriendly Cuba down there if we had acted differently toward Cuba. I was hoping that nobody would ask me about the Jackson amendment, because I am not absolutely clear in my own mind. When I made this statement about calling a moratorium on using economic warfare, I meant that somehow or other we ought to set up some rules to stop this kind of thing because I think it is going to lead to disaster eventually. But I am not prepared to say necessarily that one should start, let us say, by not going through with the Jackson amendment or changing our views on Cuba or Rhodesia. As a start, I think somehow or another the nations have got to come to some kind of agreement on this.

I think I do feel really against the Jackson amendment, if I have to make a statement, because I feel that if the amendment passes, then it is the kind of interference that will not have the desired effect. That once the amendment is passed—and I do not think that the Russians would actually change their laws as a result of a change in a law by this country—that the denial of it would simply be counterproductive; that the Soviets would get mad and would not allow the Jews to emigrate. The amendment would not have the desired effect. I think we can perhaps threaten them in advance behind the closed doors about this kind of thing, but I do not think it would work with an actual amendment—this would be too much of an affront to their sovereignty.

Mr. FRENZEL. I appreciate your comments.

Mr. Chairman, we are running out of time, but I would appreciate it if each of the members of the panel who feels inclined to comment on that subject, particularly with respect to a potential Jackson-type of amendment on the Eximbank bill, might do so for the record. Any that want to comment on the Rhodesian embargo in the same way, I would like that, too.

I have used up my time; I thank you.

Mr. ASHLEY. Mr. Conlan.

Mr. CONLAN. Thank you, Mr. Chairman.

A couple of questions, and a couple of observations.

I noticed throughout Dr. Holzman's comments that I think he has a bit of a fallacy in his thinking there in that he indicates perhaps a lack of understanding of the definition of warfare by the Soviets. In

particular, in your statement, you hoped that the nonhostilities with the Soviets continue. I think many of us that look at some of the empirical evidence that we have seen over the last 20 to 25 years see good evidence that they are in a period of protracted warfare on all fronts, military, economic, political, and diplomatic. I do not think you can separate them. I think your statement avoids analysis of perhaps one of the gut issues that Mr. Sutton has directed himself to.

I also think that you really need to think through your position that Mr. Frenzel asked you about, on using trade for political purposes, because you did not evade, you ran from the Rhodesian situation. I think if you are going to have a position that is well thought out, you ought to go back to the drawing boards and for intellectual credibility have a consistent position. Because you cannot back off of the Soviet situation, on using trade vis-a-vis internal emigration and freedom of expression, back off and concede to the Cuban situation, which is another far more repressive regime than the one in Rhodesia by all objective standards—not that the Rhodesian regime is the best in the world, but comparatively, since it certainly does not fall in the category of either the Soviets or the Cubans. So, if you are going to take the position there, I just think for persuasive credibility you should be consistent one way or the other.

My question goes a little bit to, perhaps, Mr. Sutton, and it is kind of a little bit of an observation on Dr. Campbell's comments.

Did I understand you, first, Dr. Campbell, to indicate that the gas development in the Soviet Union is an example of what they have done themselves?

Dr. CAMPBELL. Yes, my statement applies to the development of both oil and gas. So far in Siberia it has been primarily oil. There has been a certain amount of gas, but the biggest gas resources in Siberia are still to be developed.

Mr. CONLAN. There is no technology from the West? My impression was that it is Western technology primarily that has given them whatever capacity they have—Germans, Swedes, Austrians, not to mention the United States.

Dr. CAMPBELL. If you consider all the central technological processes, like in exploration and in drilling those wells and in building the pipelines, the Russians did all that, with their own technology. Their drilling equipment is Russian-made drilling equipment.

Mr. CONLAN. But none of it has come from the West?

Dr. CAMPBELL. No. The oil industry is one case where they have developed a technology, the turbodrill, that nobody else has. That is a perfect example where one can find no possible foreign predecessor of that particular technology.

Mr. CONLAN. How about computer technology? Is that primarily an American field?

Dr. CAMPBELL. Yes, I think that is true.

Mr. CONLAN. And miniature ball bearings?

Dr. CAMPBELL. I do not know about miniature ball bearings.

Mr. CONLAN. I am told that is the exclusive dominance of the Americans.

I raise some of those questions, and I would like to have Mr. Sutton address himself to some of these, or comment on what your colleagues have said, because there is something missing in the differ-

ent viewpoints here, and I am just wondering if you have a feel for it or can articulate it, because I am not quite sure I can put the finger on it.

Mr. SUTTON. Yes. My approximate estimate is that about 90 percent—95 percent—of major processes in use in the Soviet Union have originated in the West.

As a matter of fact, the turbodrill—where Dr. Campbell has done extensive work, far more than I have—is one of the best examples of an indigenous Soviet technology. Others might be medical sutures, perhaps some welding processes, some in casting.

In my business you have got to look at the whole span, and the exceptions to my thesis are just as important as the positive identifications. The turbodrill, which does the bulk of Soviet drilling, as Dr. Campbell has pointed out, is truly an indigenous Soviet development; and, in fact, in my volume 3, it was so important to me that I devoted quite an extensive section to it.

But in general, about 90 to 95 percent of Soviet technology does originate in the West.

Mr. CONLAN. You seem to stress the military aspect of technology, whereas Dr. Holzman and Dr. Campbell have not touched on that at all.

Mr. SUTTON. I think this is the gut issue involved. I wrote "National Suicide," and I have suffered the penalty thereof, because I am very well aware that 100,000 Americans were killed in Korea and Vietnam. I can precisely identify the origin of the trucks, for example, on the Ho Chi Minh Trail, the jet engines——

Mr. CONLAN. You can or cannot?

Mr. SUTTON. Yes, I can. Even with my limited access to information.

This to me, is a critical issue, and you have got to face the fundamentals of this and get away from generalizations. If men are being killed by our technology, that is the key issue. All the generalization does not get us away from this gut issue. I do sincerely believe that sooner or later we have to examine this in depth.

Mr. CONLAN. Well, Mr. Chairman, I would just say before yielding back, that what Mr. Sutton is saying is certainly something that each of us as representatives of the public have to seriously keep in mind. Much as we would like some of our manufacturers and corporate executives to do a little bit better, a few cents better on the dividend, there are some real policy considerations here, as to whether that scrap metal is going to come back to us. I think this is something that bothers us in this field as Congressmen, because once some of us were out there a little earlier, interfacing between them and the free world, and someone else is going to have to go out and interface between them and the free world unless they change their drive for world imperialism. If they would change that, if the empirical evidence were there that they are not driving for world domination, then I would say right on, trade them anything. But I do not see any empirical evidence coming out of the October war in the Middle East. I see further evidence that this is what they are doing. I would just like some more information or some supplementary statement, if Dr. Holzman and Dr. Campbell can address themselves to that and point out if there is empirical evidence that the Soviets are evolving away from an imperialistic position to a

democratic live-and-let-live philosophy, as among free nations. Then I think I could go with a total wide-open trade policy on those lines.

Well, I just raise that question, Mr. Chairman, because I think that is going to have to be on the conscience of all of us, as well as very much on the minds of the younger generation in America.

Mr. ASHLEY. Mr. Sutton, in your conclusions, as I noted them, you suggested that the U.S.S.R. is, in fact, dependent for technology on the West, and particularly the United States; that peaceful trade really is a myth; that as far as the Soviet Union is concerned, the purpose of trade is essentially military in its purpose or objective; and that any industrial technology that might be exported to the Soviet Union can be used for war, as well as peace. Would that be an accurate summation of your views, sir?

Mr. SUTTON. That is quite accurate, sir, except for one point. When I say that peaceful trade is a myth, what I really mean is that this diverts us from the main issue involved, which is the military use of our exports. I would love to see world trade and peaceful trade, and that is why I have taken such an intense stand on this issue.

Mr. ASHLEY. The other panelists, I think, contrary to what Mr. Conlan has suggested, have acknowledged that technology has many applications, military as well as nonmilitary. Did I misunderstand testimony in that respect, or the implication of your testimony?

Of course, what we are really talking about is the risk that is involved, is that not so? Then you come out differently—certainly Mr. Sutton comes out differently than Dr. Holzman, who, I take it, of all of the panelists, would be for fewer constraints on U.S. export policy with respect to U.S. export policy. In essence, our real concern is with the risks involved, to the extent that the United States is important in terms of its export of technology. Are the risks that accrue, in direct military terms, as have been suggested, offset by the beneficial prospects of better relations among nations, which is at the root of our present policy and the policy of other nations?

Would you agree that this appears to be a fundamental issue to which this subcommittee is addressing itself? I am not talking now specifically about the area that all of you gentlemen are experts on; namely, technology, and the application or use of that technology by the Soviet Union.

Dr. LEVINE. I would agree with that, Mr. Chairman. I think the whole question raised by Mr. Conlan of how do we start this analysis; that is, do we assume that the Soviets have maintained their imperialistic policies that one dates back, say, to the end of World War II, and in regard to that, then, the risk of giving them technology would be very large.

First of all, I think there is some empirical evidence in the field of foreign affairs—it is hard to get everybody to agree—but my reading of the Mideast situation is not one where the Soviets instigated the recent war. We are in a world situation, two major powers, and we have our client states in the Mideast; our client states are different. And as a major power, one tries to keep the loyalty of his client states.

Now, I do not know how to read the recent dispatches from Cairo, if one should take them at their face value or not, but if one does take them at their face value, the Russians were very reluctant to arm

Egypt as far back as, say, the spring of 1972, when the Soviet military advisers were removed. And I find it rather startling, if it is true that Sadat did not get the equipment that he requested after the October war. This might indicate—I am not privy to inside information—but this might indicate that the type of bargaining being carried on by Mr. Kissinger is indeed effective, and the type of bargaining that is involved in the Jackson amendment is perhaps a too gross instrument for getting the political returns that I personally feel we should pursue in this economic relationship.

Mr. CONLAN. Mr. Chairman, and Dr. Levine, could it also be analyzed that maybe in the Russian situation with Sadat and the Egyptians, where they did not move effectively—we have seen a situation with the Communist Party out of Moscow looking with abhorrence on the infantile leftism of the Trotskyite element. We saw that in Chile, for example, where Allende of the Socialist Party was looked upon with disdain by the Communists because he did not know when to move and he did not know how to withhold the use of power until the ultimate maximum point—and so the Communist apparatus out of Moscow was far more refined in when to strike and how to strike than others.

So, could not this also be a possibility, where the client state is not operating according to the timetable and uses its own nationalistic or extreme tendencies and then must be brought into discipline?

Dr. LEVINE. This is one of the problems of having client states that you do not actually control in a sovereign sense.

Mr. CONLAN. But do you think the evidence is not overwhelming that the Soviets are moving both cadre, arms, other things, around the world? I mean, has the fighting been on the free world's side of the line, or has the fighting been behind Communist lines? It seems to me that all of the conflicts have been on our side of the demarcation lines, indicating movement from within their base into the free world, rather than aggressive movement from our side into their side. Am I mistaken on that?

Dr. LEVINE. Well, in the developing world, it is not so clear where the demarcation lines actually should be; whether they are ours or theirs, or whether it is open territory.

Mr. CONLAN. Well, I mean non-Communist versus the Communist bloc.

Dr. LEVINE. The developing world is obviously in economic turmoil and it will be for a long time, and in the process of trying to develop modern economies and modern societies.

My feeling on the other point that I did want to make is that in our thinking about these risks, the hard thing I think is what are the interrelationships between softening Soviet foreign policy and increased economic relations with the West. Do we get anything, do we have leverage at all on Soviet foreign policy from expanding economic relations with the Soviets? I feel it is foolish to argue that this leverage is strong and that we can get the Soviet Union to do things that they really do not want to do—for example give up Czechoslovakia because of economic relations with the United States. That, I think, is not in the cards. However, what developing economic relations do do, in sort of the terminology of the economist, is that it increases the oppor-

tunity cost to the Soviets of actions that we feel are inimical to world peace and relations between the two sides. That is when the Soviets have to make a decision about making a move, if there are these economic relations in the cards, then this is a cost to them; whereas something like the Jackson amendment is a very gross instrument. Once it is there—you know, if it goes in its original form, it is just an open affront to their sovereignty, one to which I do not think that they can respond politically, then we have lost the leverage.

Mr. Conlan. In other words, you are suggesting that our assistance to them will restrain their aggressive conduct?

Dr. Levine. It will have an effect. There is no guarantee that it will restrain it. It will contribute to it especially if it is done in such a way that it has to be reconsidered periodically. Eximbank loans for example should be reconsidered every 2 years or so.

Mr. Conlan. Then you take a different position from Dr. Holzman. He abjures this, and you think it is effective, it may be effective.

You have all indicated that productivity is abysmal, relatively speaking, in the Soviet Union. This is apparently due to the fact that there is no incentive system there. Do you think there is any plausible prediction along this line as to whether they are going to allow an incentive system to operate, or do they cover for their nonproductivity by the importation of our technology?

Dr. Levine. They do have a very strong incentive system. They have quite differentiated incomes; but it has not worked properly. Whether they can develop an incentive system that does work properly is an open issue.

I think that, on the whole, you have to give a very simple answer to it; that they are looking toward borrowing technology from the Western developed countries as a substitute for running risks—again, both economic, in terms of what happens to the whole economic fabric, and political.

Mr. Conlan. Well, I would phrase it differently perhaps, the same thought that you are saying there. Their internal religious doctrine will not allow them to liberalize, and therefore they are using the importation of outside technology to cover the effects of their own fanaticism.

Mr. Ashley. Mr. Conlan, I am sorry to say that my time has expired, all time has expired.

We do have a call of the House, gentlemen; and I know I speak for the entire subcommittee in saying we are extremely grateful to you for being with us this morning. You have given us very first-rate testimony that will be of considerable value to us in our deliberations.

The subcommittee will stand in recess until 2 o'clock this afternoon.

[Whereupon, at 12:20 p.m., the subcommittee recessed, to reconvene at 2 p.m. the same day.]

Afternoon Session

Mr. Ashley. The subcommittee will come to order.

Hearings on pending international economic policy legislation continue this afternoon with receipt of testimony from public witnesses. Three of these witnesses represent firms that are actively involved in

international trade activities, including dealings with the Soviet Union. Testimony will be taken from them in a panel form, following which members will have the opportunity to question. At the conclusion, at that point in the hearings, we will then take testimony from our fourth witness.

The first in our panel this afternoon is James F. Thornton, chairman of the Lummus Co., an international design, engineering, and constuction firm, with headquarters in Bloomfield, N.J.

Mr. Thornton has been the recipient of a number of awards for distinguished service in the engineering profession, and has been honored by the Republic of Finland for his contribution to the industrial development of that country.

Mr. Thornton is the chairman in 1972–74 of the National Academy of Sciences Advisory Committee on Emergency Planning.

Mr. Thornton, we are happy to have you with us, and if you will proceed, sir.

STATEMENT OF JAMES F. THORNTON, CHAIRMAN, THE LUMMUS CO.

Mr. Thornton. Mr. Chairman, I have been requested to appear before your subcommittee today in connection with the hearings on international economic policy legislation. More specifically, I have been asked to comment on the Lummus Co.'s experience with the Export-Import Bank in the field of project financing. I consider the continued effective functioning of Eximbank as being absolutely vital to U.S. exports and their favorable impact on our trade balance.

Since 1907, the Lummus Co., an international engineering and construction firm, has completed more than 1,600 projects, worth more than $4,500 million for clients in the United States and abroad. These projects usually are petroleum refineries, petrochemical plants, metallurgical facilities, pharmaceutical plants, and other similar facilities for the processing industries.

The Lummus Co. is a service organization, offering design, engineering, procurement, construction, and plant startup capabilities, and usually assumes management of the total project.

Lummus, a subsidiary of Combustion Engineering, Inc., has served many of the major domestic and international chemical, petrochemical, metallurgical, petroleum, and pharmaceutical companies. The scope of our business over the past 10 years or so has been approximately 60-percent foreign and 40-percent domestic.

Lummus and some 40 other companies engaged in the design and construction of heavy industrial facilities are members of the National Constructors Association. In 1972, the combined annual business of this group was $14 billion, of which approximately $3,500 million was derived from overseas work. In 1973, the Lummus Co. booked orders for projects, the total installed cost of which will be over $1 billion. Of these bookings, approximately 40 percent is for plants to be constructed outside the United States.

The Lummus Co. employs about 5,000 people in its permanent worldwide engineering organization. Lummus manages its international activities from headquarters in Bloomfield, N.J. At this loca-

tion, Lummus maintains an engineering development center which is continually developing new processes, and also a computer center which serves an integrated network linking the international headquarters with other domestic and overseas operations.

Eight Lummus divisions which individually manage complete projects are located in Bloomfield, N.J.; Houston, Tex.; Toronto, Canada; London, England; The Hague, Holland; Paris, France; Weisbaden, Germany; and São Paulo, Brazil. In addition, Lummus maintains sales and management offices in Milan, Tehran, Tokyo, Hong Kong, Sydney, and Rio de Janeiro.

The total project management services provided by Lummus assist the client at every phase from the original feasibility studies to full plant production. One of the most critical aspects of these services is assisting the client in arranging project financing on the international money market.

As is the case with all U.S.-based engineering contractors, regardless of the existence of overseas subsidiaries, Lummus carefully complies with the controls on the export of technology as administered by the Department of Commerce. The majority of Lummus' projects involve technology which is available in other industrialized countries in Europe and in Japan. Of the many hundreds of process agreements and license arrangements we have to use the technology of others, nearly 30 percent are with companies outside the United States. These include firms like Imperial Chemicals, BASF, Shell International, Mitsubishi, and so forth. In the field of ethylene production, which is used in the manufacture of several common plastics. Lummus enjoys a top position worldwide, but nevertheless has competition not only from other U.S.-based engineering firms, but from firms in Germany and Japan. Firms such as Imperial Chemicals of England offer a wide variety of sophisticated technology in the fields of polymers and fibers. The Institute Francaise de Petrole of France offers a full slate of advanced petroleum refining processes, and so forth. The government export credit organizations in the countries mentioned offer competitive project financing schemes requiring the purchase of equipment in the country of financing origin.

The net result of the situation which I have generally outlined is that financing becomes the critical factor in determining the source of engineering and material procurement. For major projects, particularly in the developing areas, the engineering contractor must usually include a financial package which generally describes the type and cost of long-term financing for the specific project. This part of the proposal often involves several different currencies. Lummus has offered this assistance for nearly 20 years and has handled over $1 billion worth of work on this basis. Most of the work has involved project financing or supplier credits in practically every major European currency and a relatively small amount in U.S. loans. In years past, the availability of financing from sources outside the United States was a lot easier to arrange and the flexibility provided in terms was greater than that offered by the Eximbank. In the past several years, however, the Eximbank has made tremendous strides in meeting the competition, and as you know, has dramatically increased their export loans. As a consequence, we now find that U.S.-financed services and mate-

rials are more interesting to international clients and could well become a more important source of project financing for our foreign projects.

Lummus has had offices in Europe for many years and in essence we have been aiding the economies of these host countries by competing in the international markets utilizing the more favorable financing terms available to provide services and materials from these countries. It is imperative to act in this manner if one is to be a factor in the international field. Lummus recently completed a petrochemical complex in Brazil which has a total U.S. dollar equivalent cost in excess of $300 million, and the financing was provided from France, the United States, World Bank's IFC, and several other private European banking sources in England and the Netherlands. One project which we built in Chile was essentially all U.S. financed, whereas another project in Chile was entirely French financed.

Lummus was just recently awarded a large petrochemical project in Brazil against strong international competition. This project has been offered a U.S. loan from the Bank of America and the Eximbank in the amount of $60 million for U.S. made equipment and materials. This could be a very significant order for the U.S. manufacturing industry which would not have been possible without the active support of the Eximbank. In this particular case, several European countries will also help finance services performed by our subsidiaries in Europe and Brazil. The return on these services will ultimately provide a profit return to Lummus in the United States. At the present moment, French, British, German, and Dutch export financing agencies are offering financing packages in competition with the Eximbank-Bank of America offer. This is a typical example of the strong efforts made by the industrialized nations to get orders for their industries.

If the United States is to be stronger as a trading nation, then the Eximbank deserves full support in its work of trying to increase the export of U.S. services and equipment. Their success in recent years along these lines has been most encouraging, and certainly has contributed much to the U.S. economy by increasing the sales of various manufacturing industries and adding to the U.S. tax income.

In recent years, we have worked with an engineering firm in Japan for petrochemical projects in the U.S.S.R, Poland, Czechoslovakia, Algeria, and People's Republic of China, where Japanese financing was the key to success in international competition. In these cases, the net result is an increase in the profitability of our U.S. company and a maintenance of our technical position in the world marketplace.

However, lack of financing from the United States resulted in a loss of the opportunity to export equipment for these projects. However, this situation with respect to Eastern bloc countries has changed. A new Lummus project for the U.S.S.R. involves the supply of an acetic acid plant using Monsanto technology and financing by Eximbank. The engineering services will be performed in this country, and all the major equipment for the project will come from U.S. sources. Once again this seems to be a very desirable turn of events in that in the highly competitive international market, we and others are now

finding it easier to offer U.S. services and equipment using Eximbank financing.

I might interpolate here that less than 24 hours after we see this notice of financing by Eximbank, we were prepared and made plans to move this job to England, where we could get the financing for the engineering and the materials. It was only, as I say, less than 24 hours before the deadline that Eximbank came through with their loan agreement. Again, I would like to emphasize this technology is exportable, and we can get the credit for the materials in many places. This particular project will provide to the U.S. manufacturing industry for the equipment we will buy here, approximately 1,000 man-years of workers' salaries, and in addition to that, 200 man-years of engineering drafting and design talent, all on the U.S. payroll. The total value of this job, by the way, is approximately $45 million, and the $45 million stays here.

In summary, the continued progressive promotion of the export of U.S. materials by the Eximbank would appear to be a very essential factor in helping the U.S. trade balance. We face serious balance of payment problems in the years ahead due to our need for importing many raw materials including petroleum and metals. Increased export of U.S. equipment should greatly help in offsetting this drain. In addition, of course, the export of U.S. manufactured equipment provides more jobs for American industry and in turn, more tax return to the Government.

We are fully aware of the political questions that arise many times in connection with the internal policies of governments such as Russia, Rhodesia, and so forth. We strongly feel that these matters obviously are the concern of the President and the Congress and that U.S. business can and only will operate within the framework of whatever polices are established. Assuming that exports to favorably influence the U.S. trade balance are essential and bearing in mind that most industrialized countries face the same dilemma of greatly increased expenditures for oil from foreign sources, it would appear that the role of Eximbank should be supported in the fullest. This would include the stated intent that Eximbank will receive full backing from the Government and that its continued existence will not be questioned periodically. Then the foreign trader and his banker can feel more comfortable in their relations with U.S. industry. Other financing sources such as the World Bank and various U.N. funds do not offer any advantage to U.S. firms, and therefore our export trade is strongly dependent on a strong Eximbank.

[Mr. Thornton's prepared statement follows:]

PREPARED STATEMENT OF JAMES F. THORNTON, CHAIRMAN, THE LUMMUS CO.

Mr. Chairman, I have been requested to appear before your Committee today in connection with the hearings on international economic policy legislation. More specifically, I have been asked to comment on The Lummus Company's experience with the Export-Import Bank in the field of project financing. I consider the continued effective functioning of Eximbank as being absolutely vital to U.S. exports and their favorable impact on our trade balance.

Since 1907, The Lummus Company, an international engineering and construction firm, has completed more than 1600 projects, worth more than $4,500,000,000. for clients in the United States and abroad. These projects usually are petroleum refineries, petrochemical plants, metallurgical facilities, pharmaceutical plants and other similar facilities for the processing industries.

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The net result of the situation which I have generally outlined is that financing becomes the critical factor in determining the source of engineering and material procurement. For major projects, particularly in the developing areas, the engineering contractor must usually include a financial package which generally describes the type and cost of long term financing for the specific project. This part of the proposal often involves several different currencies. Lummus has offered this assistance for nearly 20 years and has handled over $1,000,000,000 worth of work on this basis. Most of the work has involved project financing or supplier credits in practically every major European currency and a relatively small amount in U.S. loans. In years past, the availability of financing from sources outside the U.S. was a lot easier to arrange and the flexibility provided in terms was greater than that offered by the Eximbank. In the past several years, however, the Eximbank has made tremendous strides in meeting the com-

petition, and as you know, has dramatically increased their export loans. As a consequence, we now find that U.S. financed services and materials are more interesting to international clients and could well become a more important source of project financing for our foreign projects.

Lummus has had offices in Europe for many years and in essence we have been aiding the economies of these host countries by competing in the international markets utilizing the more favorable financing terms available to provide services and materials from these countries. It is imperative to act in this manner if one is to be a factor in the international field. Lummus recently completed a petrochemical complex in Brazil which has a total U.S. dollar equivalent cost in excess of $300,000,000, and the financing was provided from France, the U.S., World Bank's IFC, and several other private European banking sources in England and the Netherlands. One project which we built in Chile was essentially all U.S. financed, whereas another project in Chile was entirely French financed.

Lummus was just recently awarded a large petrochemical project in Brazil against strong international competition. This project has been offered a U.S. loan from the Bank of America and the Eximbank in the amount of $60,000,000 for U.S. made equipment and materials. This could be a very significant order for the U.S. manufacturing industry which would not have been possible without the active support of the Eximbank. In this particular case, several European countries will also help finance services performed by our subsidiaries in Europe and Brazil. The return on these services will ultimately provide a profit return to Lummus in the U.S. At the present moment, French, British, German and Dutch export financing agencies are offering financing packages in competition with the Eximbank-Bank of America offer. This is a typical example of the strong efforts made by the industrialized nations to get orders for their industries.

If the U.S. is to be stronger as a trading nation, then the Eximbank deserves full support in its work of trying to increase the export of U.S. services and equipment. Their success in recent years along these lines has been most encouraging, and certainly has contributed much to the U.S. economy by increasing the sales of various manufacturing industries and adding to the U.S. tax income.

In recent years, we have worked with an engineering firm in Japan for petrochemical projects in the USSR, Poland, Czechoslovakia, Algeria and People's Republic of China, where Japanese financing was the key to success in international competition. In these cases, the net result is an increase in the profitability of our U.S. Company and a maintenance of our technical position in the world marketplace. However, lack of financing from the U.S.A. resulted in a loss of the opportunity to export equipment for these projects. However, this situation with respect to Eastern Bloc countries has changed.

A new Lummus project for the USSR involves the supplying of an acetic acid plant using Monsanto technology and financing by Eximbank. The engineering services will be performed in this country, and all the major equipment for the project will come from U.S. sources. Once again this seems to be a very desirable turn of events in that in the highly competitive international market, we and others are now finding it easier to offer U.S. services and equipment using Eximbank financing.

In summary, the continued progressive promotion of the export of U.S. materials by the Eximbank would appear to be a very essential factor in helping the U.S. trade balance. We face serious balance of payment problems in the years ahead due to our need for importing many raw materials including petroleum and metals. Increased export of U.S. equipment should greatly help in offsetting this drain. In addition, of course, the export of U.S. manufactured equipment provides more jobs for American industry and in turn, more tax return to the government.

We are fully aware of the political questions that arise many times in connection with the internal policies of governments such as Russia, Rhodesia, etc. We strongly feel that these matters obviously are the concern of the President and the Congress, and that U.S. business can and only will operate within the framework of whatever policies are established. Assuming that exports to favorably influence the U.S. trade balance are essential and bearing in mind that most industrialized countries face the same dilemma of greatly increased expenditures for oil from foreign sources, it would appear that the role of Eximbank should be supported in the fullest. This would include the stated intent that Eximbank will receive full backing from the government and that its con-

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tinued existence will not be questioned periodically. Then the foreign trader and his banker can feel more comfortable in their relations with U.S. industry. Other financing sources such as the World Bank and various U.N. funds do not offer any advantage to U.S. firms, and therefore our export trade is strongly dependent on a strong Eximbank.

Mr. ASHLEY. Thank you, Mr. Thornton.

The bells and the two lights that you see signify that a vote is occurring on the floor of the House, so the subcommittee will stand in recess for a very few minutes. We will return just as quickly as possible.

[A brief recess was taken.]

Mr. ASHLEY. The subcommittee will come to order.

Our next witness will be Donald E. Stingel, president of the Swindell-Dressler Co. In this position he has been actively involved in negotiations with agencies of the Soviet Union with respect to the export of foundry equipment and technology.

We are delighted to have you with us, sir, and if you would proceed as you wish.

STATEMENT OF DONALD E. STINGEL, PRESIDENT, SWINDELL-DRESSLER CO., DIVISION OF PULLMAN, INC.

Mr. STINGEL. By the way, you pronounce that Swin-dell-Dressler, we are very careful because the word "swindel" in Europe means just that.

Mr. Chairman and members of the subcommittee. I am Donald E. Stingel, president of the Swindell-Dressler Co., a division of Pullman, Inc.

Our firm is located in Pittsburgh, Pa., with branch offices throughout the world. Our principal business is engineering and construction of steel mills, foundries, and other types of industrial plants.

We appreciate the opportunity to appear before this distinguished subcommittee to provide our views regarding H.R. 13838 to extend for 4 years the functions of the Export-Import Bank and increase its lending authority to $10 billion.

We consider H.R. 13838 an exceedingly important piece of legislation. As you know, the bill directly supports a Government banking institution which: is vital in the creation and expansion of world trade markets which make a positive contribution to the U.S. trade position; is vital in assisting U.S. companies to meet or beat foreign competition in export sales; is vital to increasing employment in the United States; is vital if we are going to use foreign energy sources to manufacture materials in short supply in this country; and is vital if U.S. suppliers are going to have the flexibility to respond in a timely manner to the unique problems inherent in trade between the state controlled and the free market economies.

At Swindell-Dressler, as well as in other divisions of Pullman, Inc., we feel we speak from experience in regard to international business.

In the 1940's Pullman acquired the M. W. Kellogg Co., now headquartered in Houston, Tex., which has designed plants operating in every country in Western Europe and currently has work underway on ammonia plants using Kellogg technology in Russia, the German Democratic Republic, Romania, Hungary, Spain, and the United Kingdom. The Kellogg group has also worked extensively throughout

South America and has current projects in Brazil, Chile, and Venezuela and in 1973 was awarded a contract for $283 million by the People's Republic of China for ammonia and urea plants. Incidentally, these plants, the $283 million, are direct financed, not Export-Import Bank financed.

In 1959 Swindell-Dressler became a division of Pullman, Inc. and has supplied metallurgical plants, furnaces, and ceramic production facilities to clients in over 30 countries. Its worldwide operations are carried out through offices in Melbourne, Toronto, Mexico City, Johannesburg, and through affiliates and sales agencies in England, West Germany, France, Brazil, and Japan.

In 1971, after receiving the first export control license granted by the Commerce Department for the Kama foundry project, we signed an engineering contract with the U.S.S.R. for that project, the largest such foundry ever conceived.

I might digress for a moment. The foundry itself is 85 acres under roof. It will employ approximately 6,500 people, will have the capacity to make components such as engine blocks, wheel hubs, and so forth, for 350,000 vehicles, of which 250,000 sets will be assembled in a nearby truck plant, a truck assembly plant. We are interested only in the foundry itself.

This contract now has a value of $10 million. In 1972 and 1973 we negotiated subsequent contracts for Kama for about $50 million of electric arc furnaces, heat treating and malleabilizing furnaces which are some of Swindell-Dressler's in-house product lines. Because of our developed expertise in negotiating with the Soviets, we have also represented other U.S. companies which have secured still another $50 million from that Kama project. All of these contracts except the $10 million engineering contract, have been Eximbank financed.

While much attention was focused on Russia, Swindell-Dressler negotiated an agreement in 1973 with Poland for a $44 million machine tool castings foundry at Koluszki, Poland, the largest industrial enterprise ever awarded by the Poles to a U.S. firm and negotiations are underway for other projects in Poland and other COMECON countries. In fact, we have already received what we consider to be a letter of intent in the form of protocol for a $100 million foundry in Poland which will be used for making construction equipment and for tractor parts.

In 1972 we also received the first accreditation of any U.S. firm to open an office in Moscow and through this we handle other new business prospects for Swindell-Dressler, Pullman, and certain other American firms which we represent. Approval has also been received and an office is being opened in Warsaw, Poland, for the same reason.

Earlier, Mr. Chairman, I stated that the continuation of Eximbank's functions were vital to the expansion and creation of new world markets. We all remember the acute concern we had only a year ago when the United States experienced serious financial problems because our imports exceeded our exports by some $6 billion. That situation has been dramatically reversed and today we can look back to a favorable balance of trade, much of which is directly attributable to Eximbank export expansion programs which assisted companies like ours in creating new markets throughout the world. Whether

this growth continues will depend on the will of the Congress and your support of this legislation. I need not remind the subcommittee how important continued export expansion might be to the United States in light of the high cost of imported fuel.

Naturally, as one of the most successful U.S. firms dealing with Communist-bloc countries, we are in favor of extension of the Export-Import Bank credits to assist American business in this highly competitive market area. Without Eximbank credits and/or guarantees, we at Swindell-Dressler and Pullman would be at a competitive disadvantage to Japan, Germany, France, and Italy—and possibly even Great Britain—who have similar technological capabilities in the fields in which our know-how exists and all of whom are eager and anxious to increase their trade in these areas. In other words, what I am saying is that any one of these countries could have designed these foundries.

Our experience has been that one or more of these countries have been willing to fund 60 to 70 percent of a project at rates as low as 5.5 percent in order to get the business. As you know, Eximbank will lend no more than 45 percent of the amount of the American exports; the other 45 percent of the transaction must be financed at market rates with the remaining 10 percent paid in cash by the procuring country.

Another myth I would like to dispel is that Eximbank financing of such projects as I have described does not, in any way, subsidize companies like ours. We make our own estimates and bids; if we get a contract at a good price we make money—otherwise we lose money. Eximbank merely gives our potential customers a method of financing projects on which we make tenders. We get no other direct benefit or reimbursement of any kind from the Bank.

I have read recently where various organizations have testified before congressional committees that export financing causes unemployment in the United States. We find absolutely no evidence to support that statement. For example, to carry out the Kama engineering contract which I mentioned earlier, we have had from 250 to 350 engineers, draftsmen, and technicians working full time on this project in Pittsburgh alongside 60 to 75 Russian counterparts for nearly 2 years completely amicable give-and-take relationship, a real lesson in détente. We will have 100 Swindell-Dressler engineers and suppliers' representatives in the Soviet Union for 18 months working side by side with the Russians during the installation of the plant and equipment. Many of our people would not have been employed in 1972 because of the lack of production expansion in the steel industry of the United States had we not received this contract.

Production of the U.S. foundry equipment for Kama, either for our direct sale or as representative of other U.S. companies, has reresulted in over 3,000 man-years of work at U.S. manufacturing or fabricating plants, mostly centered in Ohio, Michigan, Pennsylvania, and Alabama. Our business with Poland has added another 100 engineering-type people to Swindell-Dressler's payroll and created another 1,200 man-years of work for those in U.S. plants making the molding machines, cranes, furnaces, and other equipment needed for the Koluszki foundry.

Earlier I mentioned that our sister division, the M. W. Kellogg Co., was involved in providing engineering technology in the design of

ammonia plants in the Soviet Union. There is a common misunderstanding about this program that I would like to clarify. This project does not involve export of ammonia, which is in short supply in the United States, to the Soviet Union, but in fact does involve the export of superphosphate which is in long supply in this country and for which the United States will in turn receive ammonia, urea, and potash fertilizer. The real benefit here is that the ammonia will be made from Soviet natural gas, thereby conserving our natural gas supply for other purposes. It takes approximately 33,000 standard cubic feet of natural gas to make 1 ton of ammonia. Hence, for every 1,000-ton per day ammonia plant, the natural gas consumption is enormous. The Russians are talking about eight 1,000-ton per day ammonia plants.

Mr. Chairman, the main thrust of U.S. foreign trade policy for over a generation has been toward reducing restrictions on trade. The U.S. Government nevertheless still maintains controls over the exportation of a wide variety of products as well as technical data related to a broad range of products in the interest of U.S. and free world security. We agree with this policy. In fact, we submit every one of our requests to the Commerce Department which goes over it very carefully, to glean out any items that they feel may have the remotest problem as far as defense, and they check into these very carefully before an export license is issued. However, we feel strongly that the flexibility that the Congress placed in Eximbank's charter has created an institution of great versatility which has made it extremely useful in assisting U.S. business in pursuit of export trade. We feel that it is imperative that American business have that flexibility to respond in a timely manner to these opportunities if we are to maintain our position in this unique market. To impose controls on the Export-Import Bank similar to those suggested by one of the Members of the House of Representatives in the April 11 Congressional Record would severely hamper the competitive position of U.S. industry and would ultimately force our foreign customers to look for alternate sources of supply. Such a move could have a serious negative impact on the U.S. economy.

In conclusion, Mr. Chairman, we strongly urge you and your distinguished colleagues to enact H.R. 13838 as amended, to extend for 4 years the period within which the Bank is authorized to exercise its functions, and to enable it to continue operation in much the present manner. With such legislation, American industry will continue to demonstrate that expanded commercial relations between the United States, the U.S.S.R., the other countries of Eastern Europe, and the People's Republic of China, can have a favorable impact on our balance of payments, employment, and the overall economic growth of the United States.

[Mr. Stingel's prepared statement follows:]

Prepared Statement of Donald E. Stingel, President, Swindell-Dressler Company, Division of Pullman, Inc.

Introduction

Mr. Chairman and members of the Subcommittee, I am Donald E. Stingel, President of Swindell-Dressler Company, Division of Pullman Incorporated. Our firm is located in Pittsburgh, Pennsylvania, with branch offices throughout the world. Our principal business is engineering and construction of steel mills, foundries and other types of industrial plants.

We appreciate the opportunity to appear before this distinguished subcommittee to provide our views regarding H.R. 13838, to extend for four years the functions of the Export-Import Bank and increase its lending authority to $10 billion.

IMPORTANT LEGISLATION

Mr. Chairman and members of the Subcommittee. I am Donald E. Stingel, lation. As you know, this bill directly supports a government banking institution which:

is vital in the creation and expansion of world trade markets which make a positive contribution to the United States trade position.

is vital in assisting U.S. companies to meet or beat foreign competition in export sales.

is vital to increasing employment in the U.S.

is vital if we are going to use foregn energy sources to manufacture materials in short supply in this country.

and *is vital* if U.S. suppliers are going to have the flexibility to respond in a timely manner to the unique problems inherent in trade between the state-controlled and the free market economies.

SPEAK FROM EXPERIENCE

At Swindell-Dressler, as well as in other divisions of Pullman Incorporated, we feel we speak from experience in regard to international business.

In the 1940's, Pullman acquired The M. W. Kellogg Company now headquartered in Houston, Texas, which has designed plants operating in every country in Western Europe and currently has work underway on ammonia plants using Kellogg technology in Russia, the German Democratic Republic, Romania, Hungary, Spain and the United Kingdom. The Kellogg group has also worked extensively throughout South America and has current projects in Brazil, Chile and Venezuela and in 1973 was awarded a contract for $283 million by the People's Republic of China for ammonia and urea plants.

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In 1971, after receiving the first export control license granted by the Commerce Department for the Kama Foundry Project, we signed an engineering contract with the U.S.S.R. for that project, the largest such foundry ever conceived. This contract now has a value of $10 million. In 1972 and 1973 we negotiated subsequent contracts for Kama for about $50 million of electric arc furnaces, heat treating and malleabilizing furnaces which are some of Swindell-Dressler's in-house product lines. Because of our developed expertise in negotiating with the Soviets we have also represented other U.S. companies which have secured still another $50 million from that Kama project.

While much attention was focused on Russia, Swindell-Dressler negotiated an agreement in 1973 with Poland for a $44 million machine tool castings foundry at Koluszki, Poland, the largest industrial enterprise ever awarded by the Poles to a U.S. firm and negotiations are underway for other projects in Poland and other COMECON countries.

In 1972 we also received the first accreditation of any U.S. firm to open an office in Moscow and through this we handle other new business prospects for Swindell-Dressler, Pullman, and certain other American firms which we represent. Approval has also been received and an office is being opened in Warsaw, Poland, for the same reason.

EXPANSION OF WORLD TRADE

Earlier, Mr. Chairman, I stated that the continuation of Eximbank's functions were vital to the expansion and creation of new world markets. We all remember the acute concern we had only a year ago when the United States experienced serious financial problems because our imports exceeded our exports by some 6 billion dollars. That situation has been dramatically reversed and today we can look back to a favorable balance of trade, much of which is directly attributable to Eximbank export expansion programs which assisted companies like ours in creating new markets throughout the World. Whether this growth continues

will depend on the *will* of the Congress and *your* support on this legislation. I need not remind this Subcommittee how important continued export expansion might be to the United States in light of the high cost of imported fuel.

EXIMBANK CREDITS KEEP U.S. COMPETITIVE

Naturally, as one of the most successful U.S. firms dealing with Communist Bloc countries, we are in favor of extension of the Export-Import Bank credits to assist American business in this highly competitive market area. Without Exim credits and/or guarantees, we at Swindell-Dressler and Pullman would be at a competitive disadvantage to Japan, Germany, France and Italy (and possibly even Great Britain) who have similar technological capabilities in the fields in which our knowhow exists and all of whom are eager and anxious to increase their trade in these areas. Our experience has been that one or more of these countries have been willing to fund 60–70 per cent of a project at rates as low as 5.5 per cent in order to get the business. As you know, Eximbank will lend no more than 45 per cent of the amount of the American exports; the other 45 per cent of the transactions must be financed at market rates with the remaining 10 per cent paid in cash by the procuring country.

Another myth I would like to dispel is that Eximbank financing of such projects as I have described *does not*, in any way, subsidize companies like ours. We make our own estimates and bids; if we get a contract at a good price we make money—otherwise we lose money. Eximbank merely gives our potential customers a method of financing projects on which we make tenders. We get *no* other direct benefit or reimbursement of any kind from the Bank.

INCREASED EMPLOYMENT

I have read recently where various organizations have testified before Congressional committees that export financing causes unemployment in the U.S. We find absolutely no evidence to support that statement. For example, to carry out the Kama engineering contract which I mentioned earlier, we have had from 250 to 350 engineers, draftsmen and technicians working full time on this project in Pittsburgh alongside 60 to 75 Russian counterparts for nearly two years in a completely amicable give-and-take relationship, a real lesson in detente. Many of our people *would not* have been employed in 1972 because of the lack of production expansion in the steel industry of the United States had we not received this contract.

Production of the U.S. foundry equipment for Kama, either for our direct sale or as representative of other U.S. companies, has resulted in over three thousand man years of work at U.S. mtnufacturing or fabricating plants, mostly centered in Ohio, Michigan, Pennsylvania and Alabama. Our business with Poland has added another 100 engineering-type people to Swindell-Dressler's payroll and created another twelve hundred man years of work for those in U.S. plants making the molding machines, cranes, furnaces and other equipment needed for the Koluszki Foundry.

RETURN OF SHORT SUPPLY MATERIALS

Earlier I mentioned that our sister division, The M. W. Kellogg Company, was involved in providing engineering technology in the design of ammonia plants in the Soviet Union. There is a common misunderstanding about this program that I would like to clarify. This project does not involve export of ammonia, which is in short supply in the United States, to the Soviet Union but *in fact* does involve the export of superphosphate which is in long supply in this country and for which the U.S. will in turn receive ammonia, urea and potash fertilizer. The real benefit here is that the ammonia will be made from Soviet natural gas, thereby conserving our natural gas supply for other purposes. It takes approximately 33,000 standard cubic feet of natural gas to make one ton of ammonia. Hence, for every 1,000 ton per day ammonia plant the natural gas consumption is enormous.

FLEXIBILITY

Mr. Chairman, the main thrust of U.S. foreign trade policy for over a generation has been toward reducing restrictions on trade. The U.S. Government nevertheless still maintains controls over the exportation of a wide variet yof products

as well as technical data related to a broad range of products in the interests of U.S. and Free World security.

We agree with this policy. However, we feel strongly that the flexibility that the Congress placed in Eximbank's charter has created an institution of great versatility which has made it extremely useful in assisting U.S. business in pursuit of export trade. We feel that it is imperative that American business have that flexibility to respond in a timely manner to these opportunities if we are to maintain our position in this unique market. To impose controls on the Export-Import Bank similar to those suggested by one of the members of the House of Representatives in the April 11th *Congressional Record* would severely hamper the competitive position of U.S. industry and would ultimately force our foreign customers to look for alternate sources of supply. Such a move could have a serious negative impact on the U.S. economy.

CONCLUSION

In conclusion, Mr. Chairman, we strongly urge you and your distinguished colleagues to enact H.R. 13838 as amended, to extend for four years the period within which the Bank is authorized to exercise its functions, and to enable it to continue operation in much the present manner. With such legislation, American industry will continue to demonstrate that expanded commercial relations between the United States, the U.S.S.R., the other countries of Eastern Europe, and the People's Republic of China, can have a favorable impact on our balance of payments, employment and the overall economic growth of the United States.

Mr. Ashley. Thank you very much, Mr. Stingel.

The third and final member of our panel this afternoon is Jack H. Ray, executive vice president of the Tennessee Gas Transmission Co., an operating division of Tenneco, Inc. in Houston, Tex.

Mr. Ray is responsible for the acquisition for all energy supplies for Tennessee Gas, the largest gas transmission company in the world.

Mr. Ray, we are happy to have you here, sir, and if you will proceed.

STATEMENT OF JACK H. RAY, EXECUTIVE VICE PRESIDENT, TENNESSEE GAS TRANSMISSION CO., HOUSTON, TEX.

Mr. Ray. Thank you, sir.

My name is Jack H. Ray. I am executive vice president of Tennessee Gas Transmission Co., Houston, Tex. I am very pleased to accept the invitation to testify before the subcommittee. I would like to talk about primarily the North Star LNG project, which Tenneco in consortia with Texas Eastern and Brown & Root, have been negotiating with the Soviet Union for some time now.

In the time I have I will discuss four main points: The gas supply crisis which faces our company, our country, and our customers, and several avenues that we are pursuing to deal with this crisis.

Second, why our efforts to deal with this crisis have led us to the consideration of importing natural gas; and specifically, why from the Soviet Union.

Third, the nature of our discussions with the Soviet officials and the details of the proposed North Star project. And last, the significance of U.S. Eximbank financing to certain objectives which we have incorporated in our conception of the project.

I have submitted a written statement for the record with much more detail than I will give here, which I hope will be helpful.

As you stated, sir, Tennessee Gas Transmission is the largest natural gas transmission company in the United States. We deliver 1½ trillion

cubic feet of gas annually to more than 120 customers located principally on the east coast of the United States.

Texas Eastern, our partner in this project, provides 1 trillion cubic feet annually to some 94 customers, also on the east coast primarily.

Several years ago it became quite apparent to us that our traditional supply source, the gulf coast and the Gulf of Mexico offshore of Louisiana and Texas, would not adequately meet the future demands of our customers; and that if we could not come up with additional supplies, we would have to curtail deliveries by 1978.

Texas Eastern faces a similar situation, and in fact, are already under curtailment by about 15 percent. Neither of our companies have been able to take on any new customers, nor have we increased our contractual commitments during the last several years because of this very serious impending shortfall of gas.

We began an extensive search for new sources of supply. Our first preference for gas supply, of course, is here at home; and we have undertaken massive efforts to expand the search for onshore and offshore natural gas reserves.

We have been actively acquiring coal reserves to be used as feedstock for syn gas. We have also planned several projects for converting crude oil into gas, but frankly, we have shelved them temporarily because of the exorbitant prices now being charged for naphtha and crude oil. We consider them uneconomic at the moment.

We are undertaking the development of huge gas reserves that are indicated to exist in the Canadian Arctic islands which we believe can be imported into this country by pipeline. Our partner, Texas Eastern, has also undertaken the development of several separate gas supply projects as well.

As we have moved forward in these areas of supplemental supply, it has become abundantly clear to us that these efforts alone will not meet the needs. Therefore, we undertook a worldwide survey of existing natural gas reserves that we might import into this country. Our search showed us very quickly that the only major proved reserves of natural gas that are not already fully committed that exist in the volumes required for an economic project were Nigeria, the Middle East, and the Soviet Union.

The 12,000-mile distance of the Persian Gulf countries and the other negative factors, not the least of which are the uncertainties associated in dealing with Arab governments, plus our growing dependence on the Middle East for petroleum as energy, we determined that we would concentrate our efforts on Nigeria and the Soviet Union.

I want to emphasize that these import projects are not considered substitutes for efforts to find gas at home, but in our judgment even with maximum effort here we will still need additionl gas. Imports of LNG seem to be at least a partial solution to the problem.

I would like to make two important points. The import projects we are considering will not be a diversion of funds that would be used for domestic energy production. On the contrary, we feel quite certain that sufficient capital will be available and will be committed to sustain a maximum domestic effort, and whether or not any gas import projects go forward.

Second, these import projects are not inconsistent with U.S. energy independence. In our view, energy independence does not necessarily mean 100-percent reliance on domestic source fuels, but rather a national energy posture such that the loss of any specific supply could be accommodated without an undue economic or lifestyle disruption.

This project, as large as it is will provide only six-tenths of 1 percent of energy consumption in the United States when it is on full strength, a quantity far smaller, in our opinion, than would be required for us to be considered dependent on that source.

Let me turn specifically to the North Star project. In commencing negotiations with the Soviet Union we began with five basic principles which were the starting points for our negotiation and which remain basic to the project.

First, all the goods and services imported into the Soviet Union to implement this project will originate in the United States. This will include the gathering system, a 1,500 mile, 48-inch pipeline, the necessary compressor stations, and a liquefaction plant which will be largely prefabricated in the United States.

Second, all vessels used to transport the LNG will be American built.

Third, all proceeds from the sale of the LNG by Soyuzgas export will, over the life of the project, remain in the United States. Thus, after debt service the residual funds will be spent in the United States for other goods and services, and no dollars will leave the United States.

Fourth, the f.o.b. price of the LNG at a designated point in the Soviet Union will be at a price which will make the gas competitive with other forms of supplemental supply sources in the United States.

And fifth, the Soviet gas reserves supporting the project will be subject to audit by third parties. The reserves will be assured prior to approval by both governments.

Now, the purposes of these five principles were manifold. Primarily, we see in the North Star project a unique opportunity for the United States to purchase a substantial quantity of energy from a nontraditional foreign source without the usual balance of payments deficit.

For once we see an opportunity to buy energy with American goods instead of American dollars. Also, we see the opportunity of dealing with a major new energy supply source at competitive prices.

And last but not least, we see the North Star project as an integral part of expanded bilateral trade between the United States and the Soviet Union.

The North Star project will involve the importation of 2.1 billion cubic feet per day for 25 years. The origin of the gas will be the Urengoi field in western Siberia. To my knowledge, this is the largest gas field in the world. It has proven reserves in excess of 210 trillion feet—enough gas to support at least eight projects of the size we are discussing here.

Let me emphasize, this field has reserves equivalent to 80 percent of the total proved gas reserves in the United States today.

The LNG will be moved in 20 cryogenic ships 4,000 miles to the east coast of the United States. Assuming project construction could commence in 1976, the first deliveries would commence in 1980 with

deliveries reaching full volume in 1982, and would continue at that level for 25 years.

The total quantity of LNG imported in this project, as I said will represent six-tenths of 1 percent of the total energy requirement in our country; when it is on full steam, 2½ percent of the total U.S. natural gas consumption, or about 10 percent of the total gas consumption in our market area—levels which we feel certainly do not put this country nor our companies in a position of dangerous dependence on one particular source of supply.

The cost of the project in 1980 for all the goods and services that would be placed in the Soviet Union, break down as follows: For the gas gathering and the pipeline facilities, $2.2 billion; for the liquefaction plants, $1.5 billion; total, $3.7 billion of U.S. goods and services to be placed in the Soviet Union.

The Soviet Union will provide all of the ruble costs required to install these facilities from their own resources. We estimate without really any exact knowledge of what it might cost in rubles, but we estimate on our basis that it will cost the equivalent of 1½ billion U.S. dollars.

The cost of the 20 ships will be $2.6 billion. The projected cost of U.S. based receiving terminal and connecting pipelines in this country will be $400 million.

All of the numbers I have given you here, all of the costs, are expressed in dollars escalated to the year in which they would be expended, and do include capitalized interest during construction.

Now, if all of these elements that I have mentioned to be put in the Soviet Union are produced in the United States, this project will generate a minimum of 250,000 man-years of employment during the life of the project. In addition are the jobs that will result from the manufacture of an additional $8 billion of other goods and services to be purchased as a result of this project.

In regard to price, the f.o.b. price is keyed, we think, to competitive price of alternative gas sources in the United States. Considering that other supplemental supplies such as syn gas from coal are expected to cost in the range of $1.40 to $1.50 per million Btu's, the Soviet gas must be costed into our system at about that price.

It will cost about 15 cents per million Btu's to store, regasify, and get this gas into our system. However, the shipping cost will be about 65 cents per Btu's. When you deduct these costs, we arrive at a price f.o.b. in the Soviet Union of 60 cents per million Btu's.

There will no doubt be some escalation in price over the life of the project. However, because of the long-term contractual commitments required by such a project, the U.S. consumers will not be subjected to fluctuating or wildly escalating prices.

I must hasten to add that we have not as yet concluded all points of negotiation with the Soviet officials, including the price. However, we do feel that an f.o.b. price in this range is essential if we are to receive all the necessary Government approvals.

With a project of this magnitude, financing is obviously a very key factor. We have researched the various methods and sources of finance that could be utilized in the project, and it boils down to three basic alternatives.

One is to finance the project entirely in Europe. One is to finance it entirely in the United States. Or the third is a combination of the two.

But the critical point is this: To the extent that financing is done through European sources, the goods and services financed must necessarily be of European origin. These are tied loans. Thus, European financing is really inconsistent with one of our basic objectives, and that was an all-U.S. goods and services project. As far as we can learn, the only way to accomplish North Star as an all-U.S. project is to finance it in the United States.

Now, here the Eximbank becomes important. We are advised by our two colead banks, the Bank of America and the First National City Bank of New York, that because of the magnitude of the capital required and the legal lending limits placed on U.S. private institutions, the only manner that it can be an all-U.S. financed project is to get Eximbank involved in approximately 25 percent direct loan and about 25 percent guaranteed.

In other words, I am talking about the $3.7 billion to be placed in the Soviet Union. This would mean that Eximbank would give a direct loan of $1 billion and guarantee $1 billion. The remaining $1.7 billion would be partly a downpayment by the Soviet Union, part supplier credits, and part unguaranteed funds from private U.S. financial institutions.

I want to emphasize that without Eximbank participation, this project can and will be financed. We have established that European financing is available. To the extent that we go that route, we will minimize or negate what we consider one of the key principles of the project—that all the goods and services would come from this country. Indeed, if Eximbank financing is not available and we do move to all European financing, the impact on the U.S. balance-of-payments deficits over the life of the project could be over $23 billion.

In addition, the day on which the first gas would arrive would be delayed by at least 18 months because of the longer European equipment delivery schedules.

One last point, the United States is not the only place the Soviet Union can sell the gas. The demand for gas in Western Europe now exceeds the available supply substantially. The Soviet Union now has contracts to export 1.4 billion cubic feet per day to Western Europe and have applications in hand for another 6 billion cubic feet per day.

I think the Soviets have made quite clear their interest in selling the gas to the United States instead of Europe as a means of supporting expanded United States-Soviet trade. Further, I believe they look at North Star as an important vehicle for building their credit in non-Communist countries.

This is a self-liquidating project. It is a means of generating significant hard currency reserves that will pay for the additional goods and services that they desire.

But, frankly, we think that if enough obstacles are raised to the project or to trade with the Soviet Union in general, that they can and will look elsewhere to sell their gas and for credit and trade. If this should happen, this country will lose what I consider an important new supplemental energy source that is now available.

Let me summarize by saying our interest in North Star stems from our urgent need to find gas supplies in addition to those we are moving to develop at home and elsewhere. When we look at the available supplemental sources, the Soviet Union stands out as a source that offers many substantial advantages to the United States, and still, it is a very good trade for the Soviet Union as well.

It is a new source of supply with vast reserves, and a major alternative to increased reliance on Arab oil. It is a source where price could be held in line with other alternatives for supplies. It is a source where energy can be purchased without the corresponding balance of payments deficit; where energy can be purchased with U.S. goods and services. It broadens the areas of the world from which the United States can import energy; and I think also could help effect a ceiling on the rising cost of the supply of energy by the OPEC countries.

It can be implemented without any transfer of technology that is not already available to the Soviet Union. The project will create over a quarter of a million man-years of employment in the United States without exporting one single job, nor will it result in the manufacture of goods that could compete with the U.S. products.

Also, this imported energy will help to fuel our economy and help maintain employment and our standard of living.

As to the status of the project, we have almost completed negotiation of a general agreement after having signed a protocol of intent last year. We hope to finalize the general agreement very shortly. We will then turn our attention to the financing and an application to the Federal Power Commission.

Thank you.

[Mr. Ray's prepared statement with attachments follow:]

THE NORTH STAR SOVIET LIQUEFIED NATURAL GAS (LNG) IMPORT PROJECT

PREPARED STATEMENT OF

JACK RAY

Executive Vice President
Tennessee Gas Transmission Company
Houston, Texas

before the

BANKING AND CURRENCY COMMITTEE
SUBCOMMITTEE ON INTERNATIONAL TRADE
U.S. HOUSE OF REPRESENTATIVES

April 24, 1974

I. INTRODUCTION

I am pleased to have the opportunity to submit to the Subcommittee this prepared statement regarding the "North Star" LNG Project which Tenneco and its consortium partners, Texas Eastern Transmission Co. and Brown & Root, Inc., have been negotiating with the Soviet Union since 1971. This statement and the several attachments to it are submitted for the record to supplement my oral testimony, presented before the Subcommittee on April 24, 1974.

In this Statement, and in my testimony, I will discuss:

-- The gas supply crisis which faces our company and our customers and the many avenues we are pursuing to deal with this crisis;

-- Why our efforts to deal with this gas crisis have led us to consideration of importing natural gas and why we have focused on the Soviet Union as one source of gas imports;

-- The exact nature of our discussions with the Soviet Delegation and the details of the proposed North Star project; and finally

-- The significance of U.S. Ex-Im Bank financing to certain objectives which have been incorporated in our conception of North Star.

II. THE IMPENDING CRISIS IN NATURAL GAS SUPPLIES

Tennessee Gas Transmission is the largest natural gas transmission company in the United States, providing approximately 1.5 trillion cu. ft. of natural gas annually to more than 120 utilities, located principally on the U.S. East Coast. Texas Eastern Transmission Company, our partner in North Star, provides approximately 1.0 trillion cu. ft. of natural gas annually to 94 customers located principally on the U.S. East Coast. 1/

Several years ago it became apparent to us that our traditional sources of gas supply would not be sufficient to permit us to meet the future demands of our customers and that, without major new sources, it would be necessary for us to begin curtailing deliveries by 1978. Texas Eastern faces a similar situation and has already curtailed deliveries by about 15%. Because of this impending gas supply shortfall, we have not -- nor has Texas Eastern -- taken on any new customers or increased contractual commitments to existing customers for several years. 2/ But more importantly, we have begun an extensive search for new sources of supply.

Our first preference for new gas supply sources is here at home. In this regard, our company has undertaken massive efforts to expand our search for new onshore and offshore U.S.

1/ Our third consortium partner, Brown & Root, Inc., is principally an engineering-construction firm not engaged in the purchase or sale of natural gas.

2/ Attachment 1 to this Statement is a copy of a letter to our customers, dated June 16, 1970, outlining in detail the domestic gas supply situation and the reasons for our inability to expand deliveries.

natural gas reserves and to acquire sufficient coal reserves for feedstock in the manufacture of substantial volumes of synthetic gas.

In addition, we are undertaking the development of huge gas reserves indicated to exist in the Canadian Arctic Islands -- reserves which we believe can be imported by pipeline.

We have also looked extensively into projects for converting naptha and crude oil into gas, but have temporarily shelved these efforts as uneconomical due to the increased cost of feedstock supplies.

Our partner, Texas Eastern, has also undertaken the development of several supplemental gas supply projects.

As we have moved forward in these areas, it has become abundantly clear that these efforts alone would not meet our gas supply needs. And so, in addition to the efforts outlined above, we undertook a worldwide survey of gas reserves that might be imported as LNG or methanol.

Our search into world gas reserves showed us very quickly that the only major proved sources of gas for the U.S. East Coast which were not fully committed -- i.e., the only sources capable of supplying the volumes required -- were Nigeria, the Persian Gulf countries and the USSR. 3/ Because

3/ Appended to this Statement as Attachment 2 is a map showing the location of proved world natural gas reserves for possible LNG export projects. One of the major sources shown on the map -- Algeria -- was judged by us to be fully committed.

of the 12,000 mile distance of the Persian Gulf countries and other negative factors -- not the least of which are the now obvious uncertainties associated in dealing with the Arab governments plus the growing U.S. dependence on the Mid-East for energy -- we determined that we would pursue import projects with Nigeria and the Soviet Union.

The critical point, worth emphasizing again, is that these LNG projects are not and never have been considered as substitutes for efforts to find gas at home. But in our judgment, even with a maximum effort at home, we will still need additional gas -- and imports of LNG seem to be at least a partial solution to this problem.

Two important points should be added here. First, the import projects we are considering will not result in diversion of funds which would otherwise be committed to domestic energy exploration and production. On the contrary, we feel in our case and in general that capital will be available and committed to sustain a maximum domestic effort whether or not gas import projects go forward. One must keep in mind that domestic resource development is not simply a function of capital committed -- there are many other limitations on the rate at which exploration and production can proceed. Offshore oil and gas development, for example, is limited by the availability of drilling rigs and other equipment. Development of coal gas is limited by the rate at which coal can be mined and by technical and environmental considerations. All domestic resource development is constrained

by availability of technical personnel and skilled labor and by economic constraints. The point is that, once you reach the maximum level of domestic resource development, the best commitment of capital becomes non-domestic development in areas where proved reserves are available.

The second important point is that these import projects are not inconsistent with the recently-advanced policy of U.S. energy self-sufficiency or energy independence. In our view and the view of many others, energy independence does not mean 100% reliance on domestic-source fuels but rather a national energy posture where reliance on foreign energy supplies does not become dependence on foreign energy supplies. As FPC Chairman Nassikas recently stated in an opinion authorizing importation of Algerian LNG:

> "The President, in his Energy Message to the Congress on November 12, 1973 (House Document No. 93-187) stresses the vital importance of 'achieving a national capacity for energy self-sufficiency.' The Staff . . . would have us believe that the objective is to have no energy imports by 1980. A capacity for self-sufficiency, however, means that we must obtain a national energy posture so that a loss of foreign energy supplies can be accommodated by the nation without undue economic and life-style disruptions. Such a posture will probably include a combination of energy storage and energy conservation, domestic production acceleration, fuels reallocation contingency plans, and supplementary energy resource development. It is this concept of national energy independence that we adopt. Certainly we should not become overly dependent on foreign energy

> supplies but, equally, it is not necessary to go to the other extreme of energy isolation." 4/

This view of energy independence was echoed as recently as this past Sunday, April 20, 1974, by FEO Administrator John Sawhill, whom the Washington Post quoted as saying:

> "President Nixon's Project Independence does not mean total self-sufficiency in energy by 1980, Sawhill said. That goal has been attacked by many specialists as impossible, and Sawhill agreed.
>
> The aim of Project Independence, he said, is to achieve sufficient strength by 1980 'that no country or group of countries can dictate either our foreign policy or have severe impacts on our domestic economic policy." 5/

As I discuss below, the North Star project would involve only six tenths of one percent (.6%) of U.S. energy consumption in 1980 -- a quantity far smaller in the scheme of things than would be required to create energy dependence on that source.

III. SOVIET LNG - THE NORTH STAR PROJECT

Turning now specifically to our Soviet LNG project, our interest in importing LNG from the Soviet Union stemmed from a number of considerations. First, we saw an opportunity to tap a major proved energy reserve and thus the opportunity to avoid increased reliance on Mid-East energy. Secondly, because of Soviet interest in trade with the U.S., we saw a unique

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4/ FPC Opinion No. 680, Eascogas LNG, Incorporated, FPC Docket No. CP 73-47 (12/28/73), pp. 21-22.

5/ "FEO Chief Sawhill Urges Conservation," Washington Post, Sunday, April 20, 1974, pp. 1, 24.

opportunity for the U.S. to procure a substantial quantity of energy from a foreign source without incurring any balance of payments deficit. Indeed, since Soviet down-payments on capital equipment and Soviet interest payments during construction would provide a surplus in the U.S. balance of payments, we viewed this as the one energy import project which could provide a positive effect on U.S. balance of payments. Thirdly, we saw the opportunity to deal with a major gas supply source at competitive prices. And, last but not least, we saw a Soviet gas import project as an integral part of expanded bilateral trade between the U.S. and the Soviet Union.

Out of these basic considerations came five key principles which we enunciated to the Soviet Delegation at the outset of our negotiations as the baseline for our participation in North Star:

(1) All goods and services imported into the Soviet Union for project construction must originate from the United States. This would include the gathering system, a 1500 mile 48" pipeline, compressor stations and a liquefaction plant.

(2) All vessels used to transport the LNG must be American-built. 6/

6/ At least 10 of the 20 U.S. built LNG vessels will be U.S.-owned and operated. While the Soviets have expressed an interest in owning and operating the remaining 10 ships, that issue has specifically been left out of our negotiations with the Soviet Delegation and will ultimately be settled by talks between the Governments of the U.S. and the Soviet Union.

(3) All proceeds from the sale of the LNG by Soyuzgasexport over the full life of the project will remain in the United States. Thus, after debt service, the residual funds must be spent in the United States for other goods and services, and thus no dollars would ever leave the United States.

(4) The f.o.b. price of the LNG at the designated port in the Soviet Union must be a price which would make the gas competitive with gas from other supplemental gas supply sources in the U.S.

(5) The Soviet gas reserves supporting the project must be subject to audit by an independent third party. The reserves must be assured prior to final approval by both Governments.

We continue to adhere to these five principles -- and, if (as discussed below) North Star can be financed in the U.S., these principles are acceptable to the Soviets.

The specific parameters of North Star, beyond the five principles just stated, are outlined in detail in Attachment 3 to this Statement. To summarize here, the North Star project will involve importation of 2.1 Bcf/Day for 25 years. The origin of the gas will be the Urengoi Field in Western Siberia. This field has proved reserves in excess of 210 Tcf -- enough gas to support almost 8 projects of this size. The proved reserves in this field alone are equivalent to 80% of the total proved gas reserves in the United States.

The LNG will be liquefied at a liquefaction plant located at the end of a 1500 mile 48" pipeline near Murmansk. It will be moved aboard a fleet of 20 LNG ships 4,000 miles to a receiving facility in the Philadelphia area of the U.S.

Assuming project construction commences in 1976, first LNG deliveries would commence in 1980 with deliveries at full volume commencing 1982. Deliveries would continue at the same level for 25 years.

The total quantity of LNG imported in this project will represent .6% of total U.S. energy consumption in 1982, or 2.5% of estimated U.S. natural gas consumption in 1982 or about 10% of the gas demand in Tenneco's and Texas Eastern's market areas -- levels which we feel do not put this country or our company in a position of dangerous dependence on one foreign source of supply.

The projected cost of the U.S. goods and services to be placed in the Soviet Union break down as follows:

$2.2	billion for gas gathering and pipeline facilities
1.5	billion for liquefaction plants
$3.7	billion total

The Soviet Union will provide all the ruble costs required to install these facilities from their own resources. We estimate this ruble cost to be the equivalent of 1.5 billion U.S. dollars. 50,000,000 man/hours of Soviet labor will be required in addition to U.S. labor for facility installation.

The cost of the 20 LNG ships is $2.6 billion. While we anticipate the use of the U.S. Maritime Administration's Title XI program to finance the debt portion of these vessels, no construction subsidies (CDS) or operating subsidies (ODS) will be involved at any point in the construction or operation of these ships. Several ship designs will be used for the fleet. All of the designs will be ones freely licensed and tested throughout the world. 7/ All ships will be subject to rigid U.S. Coast Guard safety standards and all other standards applicable to U.S.-built ships operating in U.S. waters.

The projected cost of the U.S.-based receiving terminal near Philadelphia and connecting pipelines is $400 million.

All of these costs are expressed in dollars escalated to the year in which they would be expended and also include capitalized interest during the construction period.

I should note at this point that, notwithstanding the magnitude of this project, construction of the North Star system in the Soviet Union and development of a 20 ship fleet will not involve any significant transfer of technology to the Soviet Union.

7/ While, 10 years ago, LNG ships were considered novel and unusually complex, a wealth of experience now exists in the construction and operation of these unique tankers. Attachment 4 to this Statement lists the LNG vessels currently operating or under construction throughout the world.

All of the Soviet land-base project elements -- gathering equipment, pipeline, LNG plant -- involve technology, goods and services which are now or will be available to the Soviet Union from other countries. 8/ And, as discussed above, the LNG ships will be based on designs freely licensed throughout the world. Stated differently, if the North Star project were blocked and, as discussed below, the Soviets opted to sell the gas to Western Europe, the same project system could be constructed from technology, goods and services purchased in Western Europe and other parts of the world.

If North Star does go forward and all of the project elements are produced in the United States, North Star will generate a minimum of 250,000 man years of employment in the United States in the period 1976 to 2007. 9/ In addition, there will be a very substantial number of jobs which will result from the production of about $8 billion of other goods and services to be purchased by the Soviets with the residual cash funds (net of debt service) generated by the project.

8/ North Star will not, of course, be the first major LNG project. Attachments 6 and 7 to this Statement show the major LNG systems now in operation and under construction. The North Star LNG plant will not be significantly different in basic technology from these other systems.

9/ This employment statistic is broken down by sector in Attachment 5 to this Statement. Note that roughly 83% of the 264,514 man years of labor spelled out in Attachment 5 occurs in the period 1976-1981.

The f.o.b. price of the gas, as I mentioned earlier, is keyed to the competitive price of alternate gas sources in the U.S. Considering that other supplemental gas supplies, such as synthetic gas from coal, are expected to cost in the range of $1.40 to $1.50 MMBTU, the Soviet gas must be costed into our system at about that price. When the $.15/MMBTU storage and regasification cost and $.65/MMBTU shipping costs are deducted, we arrive at a price of $.60/MMBTU f.o.b. the Soviet Union. There will no doubt be some escalation in price over the life of the project. However, because of the long term contractual conditions required by such a project, the U.S. consumer will not be subject to fluctuating or wildly escalating prices. I hasten to add that we have not as yet concluded all points of negotiation with the Soviet Delegation, including the price. However, we do feel that an f.o.b. price in this range is essential if we are to receive all necessary Government approvals.

Our studies indicate that this project will generate in the neighborhood of $8 billion in hard currency for the Soviets in excess of debt service, all of which will be committed to remain in this country to purchase other U.S. goods and services.

IV. PROJECT FINANCING

With a project of this magnitude, financing is obviously the key factor. We have researched extensively the manner in which the goods and services required for the North Star system can be acquired and financed. There are three basic alternatives.

One is to finance the project completely in Europe; another is to finance the project completely in the U.S.; the third would be a combination of European and U.S. financing. But the critical point is this: to the extent that financing is done through European sources, the goods and services financed must necessarily be of European origin. Thus, European financing is inconsistent with our basic objective of an all U.S. goods, positive balance of payments project. The only way to accomplish North Star as an all U.S., positive balance of payments project is to finance the entire project in the U.S.

Here, the Ex-Im Bank becomes important. We are advised by our co-lead banks, Bank of America and First National City Bank of New York, that because of the magnitude of the capital requirements and the legal lending limits placed on U.S. private institutions, the only manner in which an all-U.S. financed project can be accomplished is with Ex-Im participation, both by direct loan and through guarantees. Our banks advise that Ex-Im direct participation of approximately 25% of the total project cost and Ex-Im guarantee of approximately another 25% would probably be required. To be more specific, our conception of Ex-Im's role in the financing of the $3.7 billion for Soviet-based U.S. produced equipment is that Ex-Im would provide a minimum of $1.0 billion in direct loans to the Soviet Union at its normal interest rate, recently raised to 7%; and Ex-Im would guarantee an additional $1.0 billion to be provided from private sources at prevailing market interest rates. The remaining $1.7 billion

would come from Soviet down-payment, supplier credits, and unguaranteed funds from private U.S. financial institutions, also at prevailing market rates.

Let me reemphasize that, without this Ex-Im participation, North Star can and will be financed. We have established that European financing is available for the project. But to the extent we go that route, we will be minimizing or negating one of the key principles of the project -- the all-U.S. goods, positive balance of payments concept. Indeed, if Ex-Im financing were not available and North Star were financed in Europe and developed with European goods and ships, the U.S. balance of payments deficit over the life of the project would be at least $15 billion and as high as $23 billion. In addition, the day on which the first gas would arrive would be delayed at least 18 months because of longer European equipment delivery schedules.

The United States, of course, is not the only place the Soviets can sell their gas. The demand for gas in Europe now exceeds the available supply. The Western Europeans have applications to the Soviet Union to import an additional 6.0 billion cubic feet per day in addition to the 1.4 Bcf/day already contracted for import. I think the Soviets have made quite clear their interest in selling their gas to the U.S. instead of Europe as a means of supporting expanded U.S.-Soviet trade. The Soviets, despite being able to get a better price from Europe, consider our products to be of the best in the world and they don't mince words about this in private conversation.

Further, I believe the Soviets look at North Star as an important vehicle for building their credit in non-Communist countries. Also, a self liquidating project of this nature is a means of generating significant hard currency reserves that will pay for the additional goods and services they desire. But if enough obstacles are raised to North Star or to trade with the Soviet Union in general, the Soviets can and will look elsewhere for credits and for trade. If this should happen, this country will have lost an important new supplemental energy resource that is now available.

One last point. Much has been said about the risk that, after the North Star system has been put into place and substantial credit extended to the Soviet Union, the Soviets will default on the debt and/or refuse to deliver gas to the United States. While we are not experts on foreign policy or international politics, we do have the following observations: First, a substantial number of sophisticated American financial institutions have since March 1973 extended unguaranteed credit to the Soviet Union amounting to $289,799,583 -- an indication that the Soviet Union is a good credit risk. 10/ This credit worthiness is confirmed by many major extensions of credit to the Soviet Union in recent years by Western European countries, a large percentage

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10/ A summary of these transactions, listing the specific projects and financial institutions involved, is appended to this Statement as Attachment 8.

of which are directly related to gas import projects. 11/

Secondly, we know of no significant Soviet violation of an economic contract with Western nations for political purposes, despite the long series of crises we have transited since 1945. The scale of North Star and the fact that it is a contract made directly with the United States would render violation of the contract a major strategic event. At the minimum, it would lead Western Europe and Japan, whose trade Moscow has cultivated for many years, to draw back in its economic relations with the Soviet Union; and it would, of course, set back Soviet economic relations with the United States a generation or more.

Finally -- and perhaps most significantly -- LNG systems are simply not susceptible to diversion from one market to another. They are extremely capital intensive and tailor-made to a specific project without any significant excess capacity. Thus, even assuming the Soviets were able to exercise some control over a portion of the North Star LNG fleet, those ships could still not be used to divert LNG to an alternate market because there are and will not be facilities in any alternate market capable of receiving the sizeable LNG cargoes related to our project.

11/ To date, the Soviets have concluded gas projects with Finland, West Germany, Italy, Austria and France.

Further, the North Star pipeline moves in a direction away from the potential Soviet domestic market for gas so that the natural gas committed to North Star could not be diverted to the Soviet domestic market without construction of an entire new pipeline or adding capacity to existing pipelines -- both expensive and time-consuming undertakings. This inability to sell the North Star LNG in another country or divert the gas to Soviet domestic markets militates strongly against abrupt disruption of deliveries to the United States.

In short, we see the risk of delivery interruptions under North Star or default on the debt obligation as no greater than and possibly less than other LNG projects under development or consideration.

V. SUMMARY AND CONCLUSION

Let me summarize by saying that our interest in North Star stems from our urgent need to find gas supplies in addition to those we are moving to develop at home to assure that our customers will be protected. When we look at the available supplemental sources, the Soviet Union stands out as a source that offers many substantial advantages to the United States.

- It is a new source of supply with vast reserves and a major alternative to increased reliance on the Arabs for energy.
- It is a source where price can be held in line with other alternatives.

-- It is a source where energy can be purchased without a corresponding balance of payments deficit -- where energy can be purchased with U.S. goods and services.

-- It broadens the areas of the world from which the U.S. can import energy and also could help effect a ceiling on the rising cost of the supply of energy provided by the OPEC countries.

As we have noted, North Star will create over a quarter of a million man years of employment in the United States without exporting a single U.S. job and without creating a foreign-based manufacturing facility sending goods back to compete with U.S. products. And North Star can be accomplished without a significant transfer of technology not otherwise available to the Soviet Union.

Our company needs this imported energy to protect its customers. This country needs this energy to help fuel our economy, maintain employment and protect our high standard of living. For all of these reasons, we intend to press forward and finalize our negotiations with the Soviet Delegation in the near future.

TENNESSEE GAS TRANSMISSION COMPANY
A MAJOR COMPONENT OF TENNECO INC.
POST OFFICE BOX 2511 HOUSTON, TEXAS 77001

O. H. SIMONDS, JR.
PRESIDENT

June 16, 1970

Attention:

Gentlemen:

In order that you may better plan your future gas operations we think we should apprise you of problems which we face, as a result of the current gas supply shortage and the current financial situation, as well as the conclusions we have reached relative to these problems.

Historically, the abundance of gas in the Gulf Coast supply area has enabled Tennessee Gas to meet the growth requirements of its existing customers, and to add new ones, while at the same time replacing reserves currently consumed. Even though the demand for gas from this supply area increased substantially over the years, extensive exploration and development activities resulted in new discoveries sufficient to meet these increased demands.

In recent years, however, new gas discoveries have not kept pace with needs. Within the main supply area of the Tennessee Gas system (i.e., Gulf Coast of Louisiana and Texas), the estimated total proved recoverable reserves of natural gas, as reported by the American Gas Association Reserve Committee, again show a decline in 1969 as they did in 1968. The 1969 estimate for Southern Louisiana, both onshore and offshore, is 80.7 trillion cubic feet, which is a decline of 2.6 trillion cubic feet from the 1968 estimate. Similarly, the estimates for the Texas Railroad Commission Districts 2, 3 and 4, for 1969, are 65.4 trillion cubic feet,

TENNESSEE GAS TRANSMISSION COMPANY

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June 16, 1970

which is a decline of 3.3 trillion cubic feet from 1968. The Reserve Committee also reported a net decline in proved gas reserves for the second straight year for the Continental United States, excluding Alaska, where production exceeded increases in reserves by 7.2 trillion cubic feet in 1968, and by 12.2 trillion cubic feet in 1969.

It is now clear that until some breakthrough is achieved in the gas supply situation, Tennessee Gas probably will not be able to acquire, in the Gulf Coast area or elsewhere, the reserves necessary to support a significant expansion of its pipeline system.

Further, the shortage and high cost of capital funds to finance new facilities are of primary concern. The interest cost of debt capital in recent years has risen to the point where certain restrictive covenants contained in the Company's mortgage and debenture indentures are restricting our ability to obtain traditional financing for the construction of expansion facilities. These restrictive covenants were no problem when they were written, twenty years or more ago in the days of 3% interest rates and 6% rate of return allowances, but they constitute a serious problem in this day of 10-1/2% interest rates and 7% to 7-1/2% rate of return allowances. Furthermore, the cost of any funds which do become available is such that the economic feasibility of expansion projects is eroded by the level of rate of return currently allowed by the Federal Power Commission. As a result of these particular financial facts and the general impact of inflation, Tennessee Gas is preparing a rate increase filing which we expect to submit to the Federal Power Commission by October 1, 1970. The base period will be the twelve months ending May 31, 1970.

Until an improvement in the natural gas supply situation is evident or can reasonably be anticipated, and until financial conditions improve, Tennessee Gas will not be able to offer to your Company, or to any other company, additional natural gas service beyond that planned for 1970-71.

THE STATE OF TEXAS]
]
COUNTY OF HARRIS]

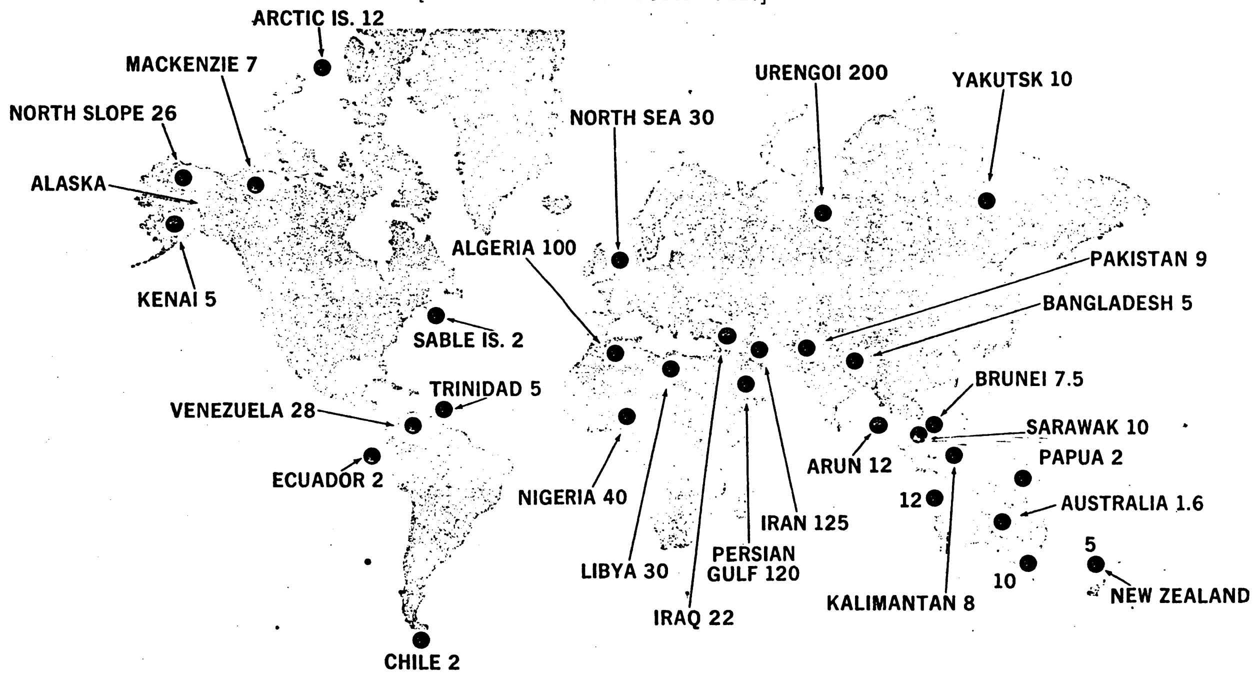
Before me, Ruth Guarino, a notary public in and for Harris County, Texas, on this day personally appeared Roger N. Stark, who being by me duly sworn, upon oath says: That on June 16, 1970, he did deposit in the United States mail, bearing correct first class postage, and properly addressed to each of the parties described on the list attached hereto and made a part hereof, that certain letter dated June 16, 1970, signed by O. H. Simonds, Jr., the form of such letter being also attached hereto and made a part hereof.

Subscribed and sworn to before me this 17th day of June, 1970.

Ruth Guarino
Notary Public in and for Harris County, Texas

RUTH GUARINO
Notary Public in and for Harris County, Texas
My Commission Expires June 1, 1971

NATURAL GAS RESERVES FOR POSSIBLE LNG EXPORT PROJECTS
[IN TRILLIONS OF CUBIC FEET]



NORTH STAR PROJECT

Several years ago, Tenneco realized that neither its current reserves nor its potential new reserves would be of the magnitude required to meet its customers' growing demand for natural gas from 1975 to 1990. It was at this time that we set out to evaluate all possible sources of alternative gas supply.

Since this time, we (1) have purchased one billion tons of coal to manufacture SNG; (2) are participating in a 75 million dollar exploration program in the Canadian Arctic Islands; (3) are evaluating plants to make SNG from liquids; (4) are evaluating several methanol import possibilities; and (5) made offers to purchase LNG in four different countries.

The purpose of this report is to present one particular project designed to import liquefied natural gas from the USSR, namely the North Star Project, but before going into the details of the project, I would like to show how we came up with the idea of trading with the Soviet Union.

First of all, when looking for sources of overseas gas supplies, we arrived at the conclusion that there were only three countries in the world within 6,000 miles of the U.S. East Coast with the potential of supplying two BCFD per day. These countries were Nigeria, Algeria, and Russia. Our studies indicated that Nigeria had 40 Tcf provesn reserves with possible ultimate reserves of 90 Tcf, Algeria has 100 Tcf proven with very little additional reserves possible but definitely not proved, and that the Soviet Union had 550 Tcf proven reserves with a potential reserve of 2,100 Tcf.

A more detailed study of the Western Siberian Basin indicated 345 Tcf recoverable reserves in an area containing 30 major gas fields, four each of which contain more than 25 Tcf of recoverable reserves. The largest of these fields is Urengoiskoye with approximately 200 Tcf recoverable reserves.

Our economic analysis of importing LNG indicated that all energy import projects were of such magnitude that they would have a negative effect on the United States balance of payments. At this time, we decided that the type import project that would be beneficial to Tenneco and, at the same time, not affect the U.S. balance of payments should be structured to be on a 100% barter trade basis. Therefore, when we first approached the Soviets on the North Star Project, we made it emphatically clear that there would not be any dollars leaving the U.S., and that the Soviets would have to purchase other U.S. goods and services with their gas sales revenues.

About six months after our initial talks with the Soviets, the U.S. initiated trade discussions with Russia. It was obvious that the Russians wanted to trade and that natural resources was one of the few items they had in abundance to support trade of any real magnitude. Otherwise they have little else to trade and certainly no hard currency.

Our Soviet LNG project appeared to be a real natural. First, it would provide the U.S. with an additional 18 Tcf gas reserve; second, the project is structured so that there is not a drain on the U.S. balance of payments; third, it provides the Soviets with dollar credits to retire U.S. debt and purchase other U.S. goods and services, thus making bilateral trade possible; and fourth, it could help ease tensions and strengthen relations among the people

and governments of the U.S.S.R. and the U.S.A. Further, this project will no doubt lead to additional trade agreements and other long-term benefits. There is no question that commerce and the improved understanding associated with trade can do wonders toward improving the political as well as commercial relationships between the two countries.

THE PROJECT

The North Star Project is an undertaking by Tenneco, Texas Eastern Transmission and Brown & Root to import 2000 MMCF per day of LNG to the Philadelphia area of the United States. As can be seen in Figure 1, the gas will flow by pipeline from Urengoiskoye Field in North Central Siberia to the LNG plant located near Murmansk, U.S.S.R. The plant will liquefy the gas by chilling it to -260°F, at which time it will occupy only one-six hundredth of its gaseous state volume. The LNG will then be loaded on cryogenic tankers and transported to the United States East Coast.

THE GAS SUPPLY

The source of the gas dedicated to this project is Urengoiskoye gas field. The recoverable reserves of this field are 200 trillion cubic feet, and to our knowledge, this is the largest gas field in the world. By way of comparison, the total U.S. proved gas reserves at the end of 1973 were about 250 trillion cubic feet and this volume includes some 26 trillion cubic feet in Alaska which is yet to be developed. Some other interesting facts about the field are shown below in Table 1.

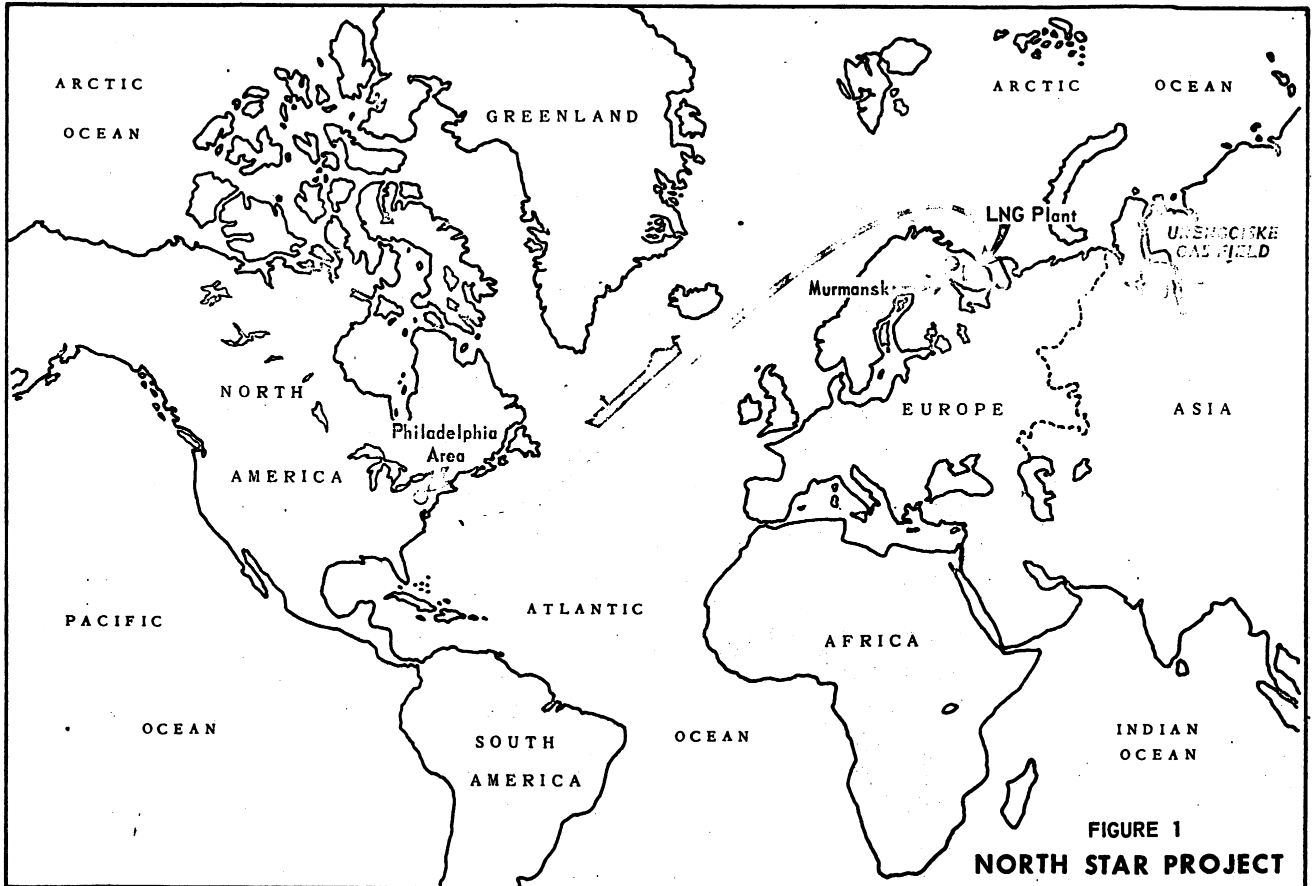


FIGURE 1
NORTH STAR PROJECT

TABLE 1

THE SOURCE

Urengoiskoye Field

Length	108 Miles
Width	31 Miles
Area	1.06+ Million Acres
Recoverable natural gas	200+ TRILLION cubic feet
Avg. production, each well	28 Million cubic feet daily
Estimated cost of each well	$1.0 Million
Avg. depth per well	4000 Feet
Avg. formation thickness	114 Feet
Avg. porosity	27 Percent
Avg. permeability	550 Millidarcys
Avg. field production rate	2.9 Billion cubic feet daily

THE PIPELINE

The gas will be transported from the field to the LNG plant near Murmansk via a 1,500 mile - 48" diameter pipeline over a route which is mostly in permafrost. The route will cause the pipeline to cross four major rivers and the White Sea. The White Sea crossing will be 44 miles in length.

Initially, the pipeline will have nine compressor stations, each housing two 32,550 horsepower turbine driven compressors. When fully powered, the line will entail an additional nine compressor stations, each one being identical to the original nine stations.

The estimated 1980 U.S. dollar cost of the pipeline to the Soviets is $2.2 billion. All of this figure is for U.S. goods and services. U.S.S.R. labor required to install the pipeline and the compressor stations is not included, but it is estimated to require 50 million man-hours.

THE LNG PLANT

The liquefaction plant will be located near Murmansk, U.S.S.R., and will consist of nine liquefaction units, each with a capacity to liquefy 260 million cubic feet of gas per day. The LNG available for loading aboard the tankers will be the equivalent of 2.2 billion cubic feet daily.

The storage will be provided by six double-walled steel tanks, each being 206 feet in diameter and 150 feet high and each with a capacity of 600,000 barrels.

Docking and loading facilities will be available for three LNG tankers, and pumps will be available which can load 35,000 gallons of LNG per minute. Thus, each tanker can be completely loaded in 15 hours.

In terms of 1980 U.S. dollars, the LNG plant will cost the Soviets an estimated 1.5 billion dollars. Again, I would like to point out that this is for U.S. goods and services and does not include Soviet labor or materials provided. Also, as in the case of the pipeline, this 1.5 billion dollars includes escalation to 1980 and interest during construction.

THE SHIPS

The project will require 20 LNG tankers, each with a capacity of 125,000 cubic meters. The one-way distance from the Murmansk area to the

to the Philadelphia area is 4,033 miles. The round-trip time is 22 days, and each tanker will make 15.6 round trips per year, and in total, the ships will average delivering 2.1 billion cubic feet per day in the Philadelphia area. The tankers will all be owned by U.S. companies, with a possibility of ten of the tankers being leased to the Soviets.

The average cost of each tanker delivered between 1980-1982, including escalation and interest during construction, is 131 million dollars.

U.S.S.R. FINANCING

Soviet capital requirements are set forth in Table 2 below. As can be seen, the Soviets will have to contribute a 20% equity investment, or 700 million dollars, and the balance will be financed from U.S. sources. The primary U.S. source of funds will be the United States' Export-Import Bank, but significant "risk" capital will come from commercial banks, insurance companies, supplier credits, and other financial institutions.

TABLE 2

U.S.S.R. FINANCING

U.S. $ - Billions

	U.S.* Financing	USSR Equity Investment	Total Project
Plant	1.2	0.3	1.5
Pipeline	1.8	0.4	2.2
TOTAL	$3.0	$0.7	$3.7

PRICE OF THE GAS

It is estimated that the price of the gas c.i.f. U.S. East Coast will be $1.25 Million BTU. This price was arrived at in the following manner:

1. Studies were made to evaluate the competitive price range of supplemental gas supplies in 1980. These studies indicated that LNG imported c.i.f. to the U.S. East Coast at $1.25/MMBTU would be competitive with alternate gas supply sources in 1980.
2. We estimated the shipping cost of the LNG. Using a 16% return on equity, we arrived at a transporta- charge of $.65/Million BTU.
3. The $1.25/MMBTU c.i.f. cost less the $.65/MMBTU shipping charge leaves a $.60/MMBTU as the f.o.b. charge at Murmansk as the top price we can pay for the gas and still get it into our market.

SECURITY OF SUPPLY

The importation of two billion cubic feet per day will be only 2.5% of the total U.S. gas requirements in 1980 and only .6% of total 1980 energy requirements.

Also, this two billion cubic feet per day import will account for only 10.0% of the total 1980 gas requirements in an area made up of New England, New York, New Jersey, Pennsylvania, Ohio, West Virginia, Kentucky, and Tennessee.

SUMMARY

In closing, I would like to again emphasize several points which I feel are very significant.

1) The North Star Project will provide a reserve 18.3 trillion cubic feet of "clean" natural gas for the U.S. East Coast and a 25-year deliverability of 2 billion cubic feet per day.
2) It makes it possible for a huge supply of gas to be imported without any adverse effects on the U.S. balance of payments.
3) It broadens the areas of the world from which the U.S.A. can import energy and also could effect a ceiling on the rising cost of the supply of energy provided by the OPEC countries.
4) By selling gas to the U.S., the Soviets can generate the dollars required to support and stimulate the purchase of other U.S. goods and services.
5) The project will create almost a quarter of a million man-years of employment in the United States.
6) The project will help ease tensions and strengthen relations among the people and governments of the U.S.S.R. and the U.S.A.

LNG TANKER POSITION AS AT 1/1/74

	SHIP SIZE				
1. PROJECT REQUIREMENTS					
LNG Projects	25-35,000 m^3	40-50,000 m^3	70-75,000 m^3	87,600 m^3	120-130,000 m^3
A. Operating	3	7	6	-	-
B. Under Construction	1	-	3	2	34
C. Proposed	1	-	-	-	86
Sub Total	5	7	9	2	120
2. SHIPS AVAILABLE OR ORDERED					
A. Available	3	6	4	1	-
B. Ordered	5	1	5	1	37
Sub Total	8	7	9	2	37
3. SURPLUS/SHORTAGE	+ 3	-	-	-	-83

EXCLUDED - Aristotle (ex Methane Pioneer)	5,123 cubic meters
Euclides	4,000 cubic meters
Massachusetts (barge)	5,087 cubic meters
Pythagore	630 cubic meters

LNG TANKER POSITION AS AT 1/1/74

LNG SHIPPING	SHIP SIZE: 25-35,000 m^3	40-50,000 m^3	70-75,000 m^3	87,600 m^3	120-130,000 m^3	LNG PROJECT
1. OPERATING	1. Methane Princess (B)					Algeria-UK
	2. Methane Progress (B)					Algeria-UK
	3. Jules Verne (F)					Algeria-N.France
		1. Laieta (S)				Libya-Spain
		2. Esso Brega (i)				Libya-Italy
		3. Esso Portovenere (i)				Libya-Italy
		4. Esso Liguria (i)				Libya-Italy
		5. Descartes (F)				Algeria-U.S.East Coast
		6. Hassi R'Mel (A)				Algeria-S.France
			1. Arctic Tokyo (L)			Alaska-Japan
			2. Polar Alaska (L)			Alaska-Japan
			3. Gadinia (B)			Brunei-Japan
			4. Gadila (B)			Brunei-Japan
				1. Norman Lady (B)		Algeria-U.S.East Coast (short term charter)
2. ORDERED	1. Peter Smedvig (N)					?
	2. Hull 177 (N)					?
	3. Montana (N)					?
	4. Kentown (B)					?
	5. Hull ? (US)					Kenai-Newport, Oregon
		1. Charles Tellier (F)				Algeria-S.France
			1. Gari (B)			Brunei-Japan
			2. Gouldia (B)			Brunei-Japan
			3. Geomitra (B)			Brunei-Japan
			4. Gastrana (B)			Brunei-Japan
			5. Genota (B)			Brunei-Japan
				1. LNG Challenger (B)		?
					1. Ben Franklin (F)	Algeria-U.S.Distrigas
					2. Hull 283 (L)	Algeria-U.S.El Paso
					3. Hull 284 (L)	Algeria-U.S.El Paso
					4. Hull 287 (L)	Algeria-U.S.El Paso
					5. Hull 608 (US)	Algeria-U.S.El Paso
					6. Hull 609 (US)	Algeria-U.S.El Paso
					7. Hull 610 (US)	Algeria-U.S.El Paso
					8. Hull 2266 (US)	Algeria-U.S.El Paso
					9. Hull 2267 (US)	Algeria-U.S.El Paso
					10. Hull 2268 (US)	Algeria-U.S.El Paso
					11. Hull 41 (US)	Algeria-U.S.Eascogas
					12. Hull 42 (US)	Algeria-U.S.Eascogas
					13. Hull 46 (US)	Algeria-U.S.Eascogas
					14. Hull 198 (L)	Abu Dhabi-Japan
					15. Hull 199 (L)	Abu Dhabi-Japan
					16. Hull 200 (L)	Abu Dhabi-Japan

LNG TANKER POSITION AS AT 1/1/74

LNG SHIPPING

	S H I P S I Z E					
	25-35,000 m^3	40-50,000 m^3	70-75,000 m^3	87,600 m^3	120-130,000 m^3	LNG PROJECT
2. ORDERED (cont'd)					17. Hull 1220 (L)	Abu Dhabi-Japan
					18. Hull 1221 (L)	?
					19. Hull 83 (L)	Abu Dhabi-Japan
					20. Hull ? (F?)	Algeria-S.France
					21. Hull ? (Bel?)	Algeria-S.France
					22. Hull ? (A)	Algeria-S.France
					23. Hull ? (A)	Algeria-W.Germany
					24. Hull ? (US)	Indonesia-Japan
					25. Hull ? (US)	Indonesia-Japan
					26. Hull ? (US)	Indonesia-Japan
					27. Hull ? (US)	Indonesia-Japan
					28. Hull A26 (?)	?
					29. Hull B26 (?)	?
					30. Hull 84 (?)	?
					31. Hull 302 (F)	?
					32. Hull ? (?)	?
					33. Hull ? (A)	Algeria-W.Germany
					34. Hull ? (A)	Algeria-W.Germany
					35. Hull ? (A)	Algeria-W.Germany
					36. Hull ? (US)	Indonesia-U.S.W.Coast
					37. Hull ? (US)	Indonesia-U.S.W.Coast

NOTE: Letter in parentheses indicates flag e.g.:

A = Algeria
B = England
Bel = Belgium
F = France
I = Italy
L = Liberia
N = Norway
US = United States

LNG TANKER REVIEW AT 1/1/74

	OWNER	SHIP	SPEED (KNOTS)	SIZE (m^3)	DESIGN	DELIVERY	SERVICE	BUILDER
IN SERVICE	1. Conch Methane Tankers Ltd.	Methane Princess	17.25	27,400	Conch	1964	Algeria-UK	Vickers Armstrong (UK)
	2. Methane Tanker Finance Ltd.	Methane Progress	17.25	27,400	Conch	1964	Algeria-UK	Harland & Wolff (UK)
	3. GAZ Marine	Jules Verne	17.0	25,500	Gaz Transport	1965	Algeria-France	Ateliers et Chantiers de la Seine (France)
	4. Naviera de Productos Licuados SA	Laieta	18.0	40,000	Esso	1970	Libya-Spain	Astilleros Y Talleres Del Noroeste (Spain)
	5. Prora Trasporti	Esso Brega	18.0	40,000	Esso	1969	Libya-Italy	Italcantieri (Italy)
	6. Prora Trasporti	Esso Portovenere	18.0	40,000	Esso	1969	Libya-Italy	Italcantieri (Italy)
	7. Prora Trasporti	Esso Liguria	18.0	40,000	Esso	1969	Libya-Italy	Italcantieri (Italy)
	8. Arctic LNG Transportation	Arctic Tokyo	18.25	71,000	Gaz Transport	1968	Alaska-Japan	Kockums Mekaniska Verkstad (Sweden)
	9. Arctic LNG Transportation	Polar Alaska	18.25	71,000	Gaz Transport	1969	Alaska-Japan	Kockums Mekanieska Verkstad (Sweden)
	10. Gazocean Armement	Descartes	17.0	50,000	Technigaz	1971	Algeria-U.S.	Chantiers de L'Atlantique (France)
	11. Algerienne CIE National de Navigation	Hassi R'Mel	17.5	40,000	Gaz Transport	1971	Algeria-France	C.N.I.M. (France)
	12. Shell International Marine	Gadinia	18.0	75,000	Technigaz	1972	Brunei-Japan	Chantiers de L'Atlantique (France)
	13. Shell International Marine	Gadila	18.0	75,000	Technigaz	1973	Brunei-Japan	Chantiers de L'Atlantique (France)
	14. Buries Markes Ltd/Leif Hoegh	Norman Lady	19.5	87,600	Moss	1973	Charter	Moss Rosenberg Verft (Norway)
ON ORDER								
1974	1. Smedvig Tankrederi	Peder Smedvig	18.5	29,000	Moss	1/74	?	Moss Rosenberg Verft (Norway)
	2. Cie. de Messageries Maritime	Charles Tellier	17.5	40,080	Technigaz	1/74	Algeria-France	Chantiers Navals de la Ciotat (France)
	3. Hilmar Reksten	Hull 177	19.7	29,000	Moss	4th Qtr/74	?	Moss Rosenberg Verft (Norway)
	4. Pancravette Ltd. (Universal Gas & Oil)	Kentown	20.0	35,000	Gaz Transport	1st Qtr/74	?	C.N.I.M. (France)
	5. Shell Tankers (UK)	Gari	18.0	75,000	Technigaz	8/74	Brunei-Japan	Chantiers de L'Atlantique (France)
	6. LNG Carriers Ltd.	LNG Challenger	19.0	87,600	Moss	7/74	?	Moss Rosenberg Verft (Norway)
	7. Shell Tankers (UK)	Gastrana	18.0	75,000	Technigaz	4th Qtr/74	Brunei-Japan	Chantiers de L'Atlantique (France)
1975	8. Shell Tankers (UK)	Geomitra	18.0	75,000	Gaz Transport	2/75	Brunei-Japan	C.N.I.M. (France)
	9. Shell Tankers (UK)	Gouldia	18.0	75,000	Technigaz	4/75	Brunei-Japan	Chantiers Navals de la Ciotat (France)
	10. Gazocean Armement	Ben Franklin	19.0	120,000	Technigaz	1st Qtr/75	Algeria-U.S.	Chantiers Navals de la Ciotat (France)
	11. El Paso Marine Co.	Hull 283	20.0	125,000	Gaz Transport	4/75	Algeria-U.S.	Chantiers Navals de la Ciotat (France)
	12. Gotaas Larsen	Hull 198	19.5	125,000	Moss	2nd Qtr/75	Abu Dhabi-Japan	Moss Rosenberg Verft (Norway)
	13. Lofoten International Marine Enterprises (Universal Gas & Oil)	Montana	23.0	35,000	Gaz Transport	8/75	?	C.N.I.M. (France)
	14. Shell Tankers (UK)	Genota	18.0	75,000	Gaz Transport	10/75	Brunei-Japan	C.N.I.M. (France)
	15. Cryogenics Energy Transport Inc.	Hull 41	20.4	125,000	Moss	12/75	Algeria-U.S.A.	General Dynamics (U.S.A.)

ON ORDER	OWNER	SHIP	SPEED (KNOTS)	SIZE (m^3)	DESIGN	DELIVERY	SERVICE	BUILDER
1976	16. El Paso Marine Co.	Hull 284	20.0	125,000	Gaz Transport	1/76	Algeria-U.S.A.	Chantiers de France (France)
	17. El Paso Marine Co.	Hull 609	20.0	125,000	Technigaz	2/76	Algeria-U.S.A.	Newport News Shipbuilding (U.S.A.)
	18. Gotaas Larsen	Hull 199	19.5	125,000	Moss	2nd Qtr/76	Abu Dhabi-Japan	Moss Rosenberg Verft (Norway)
	19. Trans Ocean Gas Shipping	Hull 302	19.0	120,000	Technigaz	5/76	?	Chantiers Navals de la Ciotat (France)
	20. Zodiac Shipping Co.	Hull A26	19.3	122,260	Gaz Transport	6/76	?	Chantiers de L'Atlantique (France)
	21. LNG Transport Inc.	Hull 42	20.4	125,000	Moss	10/76	Algeria-U.S.A.	Genoral Dynamics (U.S.A.)
	22. El Paso Marine Co.	Hull 610	20.0	125,000	Technigaz	8/76	Algeria-U.S.A.	Newport News Shipbuilding (U.S.A.)
	23. El Paso Marine Co.	Hull 287	20.0	125,000	Gaz Transport	10/76	Algeria-U.S.A.	Chantiers de France (France)
	24. Methane Delta Co. (El Paso)	Hull 2266	20.0	125,000	Conch	?/76	Algeria-U.S.A.	Avondale Shipyards (U.S.A.)
	25. Algerienne CIE National de Navigation	Hull ?	?	125,000	Technigaz	end/76	Algeria-S.France	Chantiers Navals de la Ciotat (France)
	26. Global Marine Development	Hull ?		28,616	?	76	Kenai-Newport (Oregon)	
1977	27. Liquegas Transport	Hull 46	20.4	125,000	Moss	1/77	Algeria-U.S.A.	General Dynamics (U.S.A.)
	28. Odyssey Trading Co.	Hull B26	19.3	122,260	Gaz Transport	1st Qtr/77	?	Chantiers de L'Atlantique (France)
	29. Gotaas Larsen	Hull 200	19.5	125,000	Moss	1st Qtr/77	Abu Dhabi-Japan	Moss Rosenberg Verft (Norway)
	30. Methane Alpha Co. (El Paso)	Hull 608	20.0	125,000	Technigaz	4/77	Algeria-U.S.A.	Newport News Shipbuilding (U.S.A.)
	31. Gotaas Larsen	Hull 83	?	125,800	Moss	Early/77	Abu Dhabi-Japan	Howaldtswerke-Deutsche Werft (Germany)
	32. Gotaas Larsen	Hull 1220	21.0	128,600	Moss	Early/77	Abu Dhabi-Japan	Kawasaki Heavy Industries (Japan)
	33. Methane Epsilon Co. (El Paso)	Hull 2267	20.0	125,000	Conch	Early/77	Algeria-U.S.A.	Avondale Shipyards (U.S.A.)
	34. Methane Zeta Co. (El Paso)	Hull 2268	20.0	125,000	Conch	end/77	Algeria-U.S.A.	Avondale Shipyards (U.S.A.)
	35. Gotaas Larsen	Hull 1221	21.0	128,600	Moss	end/77	?	Kawasaki Heavy Industries (Japan)
	36. Leif Hoegh	Hull 84	21.0	125,000	Moss	end/77	?	Howaldtswerke-Deutsche Werft (Germany)
	37. Louis Dreyfus (Sagape)	?	20.0	129,500	Gaz Transport	end/77	Algeria-France	? (France)
	38. Leif Hoegh	?	20.0	129,000	Moss	end/77	?	Kawasaki Heavy Industries (Japan)
	39. Methania	?	20.0	125,000	Gaz Transport	May/78	Algeria-S.France	Boelwerftemse (Belgium)
	40. Cherokee Shipping Company	Hull ?	20.4	125,000	Moss	mid/77	Indonesia-Japan	General Dynamics (U.S.A.)
	41. Cherokee Shipping Company	Hull ?	20.4	125,000	Moss	end/77	Indonesia-Japan	General Dynamics (U.S.A.)
	42. Cherokee Shipping Company	Hull ?	20.4	125,000	Moss	mid/78	Indonesia-Japan	General Dynamics (U.S.A.)
	43. Cherokee Shipping Company	Hull ?	20.4	125,000	Moss	end/78	Indonesia-Japan	General Dynamics (U.S.A.)
	44. Algerienne CIE National de Navigation	Hull ?	?	125,000	Gaz Transport	May/77	Algeria-S.France	C.N.I.M. (France)

ON ORDER	OWNER	SHIP	SPEED (KNOTS)	SIZE (m^3)	DESIGN	DELIVERY	SERVICE	BUILDER
1977 (cont'd)	45. Algerienne CIE National de Navigation	Hull ?	?	125,000	Gaz Transport	May/78	Algeria-W.Germany	C.N.I.M. (France)
	46. Algerienne CIE National de Navigation	Hull ?	?	125,000	Technigaz	78	Algeria-W.Germany	Chantiers Navals de la Ciotat (France)
	47. Algerienne CIE National de Navigation	Hull ?	?	125,000	Technigaz	Oct/78	Algeria-W.Germany	Chantiers de L'Atlantique (France)
	48. Pacific Lighting Marine Co.	Hull ?	23.0	130,000	Conch	mid/77	Indonesia-U.S. West Coast	Sun Shipbuilding & Dry Dock (U.S.A.)
	49. Pacific Lighting Marine Co.	Hull ?	23.0	130,000	Conch	Early/78	Indonesia-U.S. West Coast	Sun Shipbuilding & Dry Dock (U.S.A.)

PROJECTED MAN YEARS OF EMPLOYMENT (MINIMUM)
REQUIRED FOR CONSTRUCTION OF NORTH STAR PROJECT SYSTEM

I. SHIPS -- CONSTRUCTION, OPERATION AND MAINTENANCE

A. Construction:

Shipyard Labor	=	12,000 men/year
Shipyard Community Labor	=	6,000 " "
Suppliers Labor	=	7,200 " "
Suppliers Community Labor	=	3,600 " "
Miscellaneous	=	1,200 " "
		30,000 " "
No. of Years	=	x 5
		150,000 man years

B. Operation:

Main Crews: 20 ships @ 40 Men	=	800 men/year
Support Crews: 20 ships @ 48 Men	=	960 " "
		1,760
No. of Years	=	x 25
		44,000 man years

C. Repair:

Men Per Year	=	500
No. of Years	=	x 25
		12,500 man years

II. LNG PLANT:

Total LNG Plant	=	36,000 man years

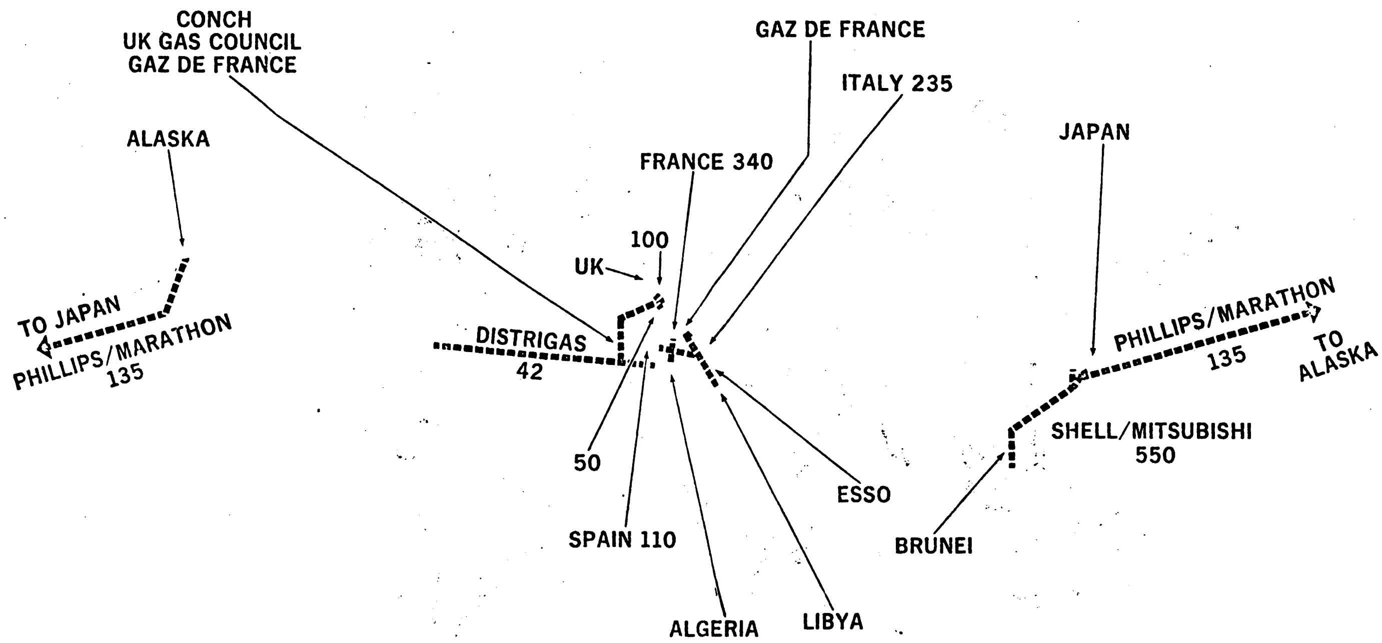
III. PIPELINE -- EQUIPMENT, ENGINEERING AND CONSTRUCTION

A.	Pipe: 3500 men x 3 yrs	=	10,500 man years
B.	Compressor Engines: 1400 men x 2 yrs	=	2,800
C.	Valves: 250 men x 3 years	=	7,500
D.	Constr. Equip.: 6,000 men x 1 yr	=	6,000
E.	Engineering: 250 men x 2 years	=	500
F.	Construction:		
	(1) Pipeline: 220 men x 3 years	=	660
	(2) White Sea Crossing: 322 men x 2 yrs	=	644
	(3) Compressor Stations: 80 men x 2 yrs	=	160
			22,014 man years

IV. TOTAL: SHIPS, LNG PLANT, PIPELINE

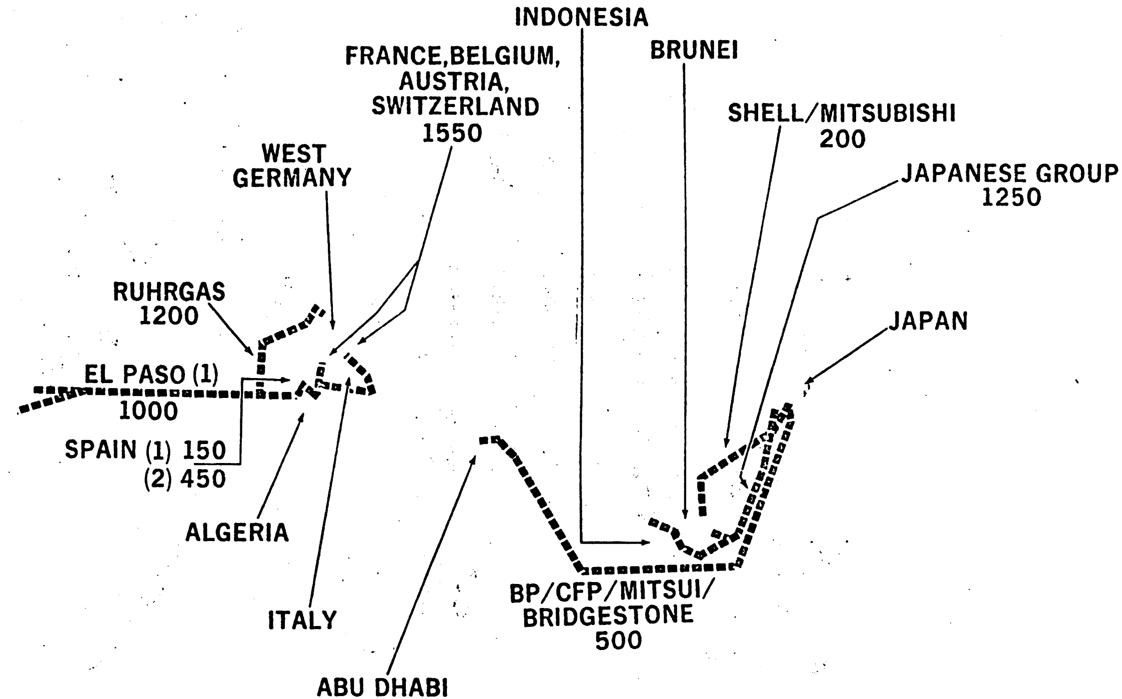
SHIPS:	206,500 man years
LNG PLANT:	36,000
PIPELINE:	22,014
	264,514 man years

LNG PROJECTS IN OPERATION
[NUMBERS IN MILLIONS OF CUBIC FEET PER DAY]



LNG PROJECTS UNDER CONSTRUCTION

[NUMBERS IN MILLIONS OF CUBIC FEET PER DAY]



USSR LOANS - EXIM DIRECT AND UNGUARANTEED PRIVATE SOURCES
3/73 - 3/74
(SOURCE EXIM NEWS RELEASES)

	Russian Use	Russian Equity	Private Unguaranteed Sources	Private Unguaranteed $	EXIM Bank Direct $	Total Project Cost	Repayment Beginning Date	Repayment Number of Years	EXIM Interest Rate
1.	Table Ware Plant	$ 2,183,300	Bankers Trust (New York)	$ 9,824,850	$ 9,824,850	$21,833,000	11/15/75	10	6%
2.	Piston Mfg Machinery	1,435,812	N.A.	6,461,153	6,461,153	14,358,118	5/05/75	8	6%
3.	Iron Ore Pellet Plant	3,600,000	N.A.	16,200,000	16,200,000	36,000,000	5/20/77	8	6%
4.	Gas Reinjection Compressors	2,625,157	Wells Fargo (San Francisco)	11,813,204	11,813,204	26,251,565	11/05/74	7	6%
5.	Piston Mfg Trans Line	1,572,204	French-Amer Bank Corp (NY)	7,074,919	7,074,919	15,722,042	5/05/74	8	6%
6.	Agri Tractor Part Machine	600,000	Franklin N.B. (New York)	2,700,000	2,700,000	6,000,000	11/05/75	8	6%
7.	Acetic Acid Plant	4,451,000	N.A.	20,031,750	20,031,750	44,515,000	2/10/79	10	6%
8.	Kama River Truck Plant	34,211,111	Chase Man., et al	153,950,000	153,950,000	342,111,111	10/10/77	12	6% on $86,450,000 7% on $67,500,000
9.	UFA Motor Works-flywheel transfer lines	745,810	N.A.	3,356,145	3,356,145	7,458,100	8/20/76	7	6%
10.	Ministry of Irrigation - canal lining material	660,000	N.A.	2,970,000	2,970,000	6,600,000	12/15/75	5	6%

(Continued) USSR LOANS - EXIM DIRECT AND UNGUARANTEED PRIVATE SOURCES
3/73 - 3/74

	Russian Use	Russian Equity	Private Unguaranteed Sources	Private Unguaranteed $	EXIM Bank Direct - $	Total Project Cost	Repayment Beginning Date	Repayment Number of Years	EXIM Interest Rate
11.	Petrochemical Industry - valve making machinery	$ 470,000	N.A.	$ 2,115,000	$ 2,115,000	$ 4,700,000	12/15/76	5	6%
12.	International Trade Center	8,000,000	Chase Man. (New York)	$36,000,000	$36,000,000	$80,000,000	7/10/79	10	6%
13.	Circular Knitting Machines	562,000	Bankers Trust	2,529,000	2,529,000	5,620,000	2/10/75	7	6%
14.	Tableware & Dishware Plant	689,314	Wells Fargo (San Francisco)	3,101,912	3,101,912	6,893,138	3/10/76	10	6%
15.	Submersible Electric Pumping Units	2,593,700	French-Amer et al	11,671,650	11,671,650	25,937,000	8/05/74	7	6%
				$289,799,583					

Mr. ASHLEY. Thank you, Mr. Ray. That was a very interesting statement.

Mr. McKinney.

Mr. MCKINNEY. I would first like to thank all of you gentlemen for coming down here and giving us your testimony and the facts behind it. I am particularly interested in the emphasis that all three of you appear to put on something that really bothers me; and that is that we have to make a revolutionary change in our thinking on balance of payments, now that we find that crude oil, and in particular residual oil, has gone to $12 a barrel or wherever it will finally settle, which I guess will be around $8 a barrel, which will make everything we ever had in the balance-of-payments situation seem like almost a minor problem.

Also, it is interesting—I have been critical since I have been on this subcommittee of American industry because I think they have in many ways been too fat and happy at home and have forgotten that we originally got our start by selling sewing machines to the Arabs and refrigerators to the Eskimos, as they used to say.

The one weapon we have—and the world is quickly catching up to us—is our ability to buy now and pay later and promote those terms. We have successfully done it in this country; in fact, I think every once in a while we have our banker friends in here. We look at them and say well, they have been a little bit too successful in our hard goods financing in this country. Certainly 4 years for car payments when Detroit does not seem to be able to make a 4-year car is dubious.

Mr. Ray, I boggle, my mind boggles at the complications of the deal you have just described to us. I hate to think of how many man-hours of brains, and accountants, and computers have been worn out in all of this. For you to have to sit there and realize that it depends upon the vagaries of this rather fluctuating body known as the U.S. Congress must really give you—you must have a very strong stomach, or you are taking a lot of ulcer medicine.

I would be interested in—and I think your pipe goes through my backyard, if it is the one that comes up through Connecticut, about 40 feet from my back door, so please, make sure nothing happens to it.

I would be interested in how much of New England's gas problem do you think this would solve? We, of course, are at the end of every pipeline from bread to oil to gas, and therefore, pay the most outrageous prices for fuel of any part of the Nation, which could, in its flow of costs to industry, cause us to turn to sort of an instant energy Appalachia.

How much of our New England need do you suppose this would supply?

Mr. RAY. Well, I do not know exactly how to answer that. We contemplate or we hope that the Federal Power Commission will allow us to bring this gas in, and we plan to bring it in, incidentally, at West Deford, N.J., across the Delaware River from the Philadelphia Airport. We have a site that we are attempting to permit, and require a pipeline of some 60 or 70 miles, I think, to get it to our line, and the Texas Eastern line.

We have forecast an increase of about 2 to 2½ percent per year growth to meet the demands, the additional demands of our present

customers. I do not know if you realize, but we sell gas wholesale only. In other words, we sell it to the utilities. We really do not have much of a handle and neither does the FPC unfortunately, on where our gas ends up.

So, we would put it in our system, hopefully roll in the price, because we think this certainly would have the least impact on the consumer. In other words, we are delivering gas now from the Texas and Louisiana gulf coast, say for about 55 cents, compared to what the numbers I was talking about, $1.40.

The distribution cost inside the city of New York is approximately 95 cents. So that is where the gas price comes from.

I am sure you also know we make no money on gas markup itself. We buy gas, we sell it for what we buy it for, plus the rate of return that the Federal Power Commission allows on our unamortized plant or pipeline.

So I really cannot say how much this might do to New England because it would depend somewhat on what the local utility firms would do in New England. But certainly, this will add a substantial portion.

Mr. McKinney. Are your pipes in Texas big enough to carry the extra increased demand that is going to come? I found out just here in Washington, for instance, that the Washington Gas Co. has not put a new customer on for 2 years.

If you were remodeling a house in Washington and it does not have gas service, you cannot get gas and you cannot get oil; so you have to put in an electric furnace, and that is a marvelous thing to try to pay for, particularly a 110-year-old townhouse. Are your pipes big enough for the future demand?

Mr. Ray. No. Traditionally, for instance 30 years ago, when our first line was laid it was one line from south Texas up to New England. As our gas supply grew and the demand grew, we are continuing to add lines. For instance, now we have 15,000 miles of pipeline for over a 1,500-mile route. So we have done what you call loop the line, add compression horsepower, and add lines.

Mr. McKinney. Do you have trouble with environmentalists getting these lines built?

Mr. Ray. Yes, we do.

Mr. McKinney. I was wondering how you deliver them, because that could be a problem in your overall scheme.

Mr. Ray. Yes, it could be a problem in West Deford, but so far we are proceeding along fairly well.

Mr. McKinney. Do you have any intimation as to whether or not once this deal is made and the gas starts to flow that the Russians might not live up to their part?

Mr. Ray. No, sir, I have no reason to. As far as we can find out, they have never reneged on a commercial agreement, plus the fact that they are going to be very much in debt as a result of this project. I mean it is not just a few dollars; it is lots of dollars. I think if they were to renege on this debt, it would ruin their credit worldwide, and they have worked very hard for a long time to establish a triple-A rating on credit.

Mr. McKinney. My time is almost up, but one other thing that I have heard expressed that worries me a little bit is, as you say, they would be building up credits in this country to spend on American durable goods.

Do you suppose that one of the conditions they may ask for, either now or when this is completed, is a relaxation of our so-called prohibitive list?

Mr. Ray. Well, I am sure they will ask for it, and I think it will probably end up as some negotiated thing with them and with the Department of Commerce, and in what things they will be able to buy.

Mr. McKinney. I would like to thank all of you gentlemen again for coming down and spending the time here with us.

Mr. Ashley. Mr. Young.

Mr. Young. This testimony is really establishing U.S. foreign policy, whether we like it or not, and I am still trying to make an adjustment between old-fashioned political-military relationships and new kinds of economic relationships, and they are all clashing. When you talk about Nigeria, the Middle East, and the Soviet Union as being the only places where you have tremendous supplies of natural gas, we almost have to admit that our political interests and the things that we have in common with these parts of the world is rather minimal compared to our old, more traditional trading partners. In any kind of military agreement, we would be looking for checks and balances that would be a fallback position in the event that it did not work out the way we were looking at it in the beginning. Now, I am just wondering, in these kinds of economic transactions, what kind of counterpressures are there in the event that, say, there is a change of administration in Russia within the next 10 years? I would like any of you gentlemen to comment on that.

Mr. Ray. Well, No. 1, I do not think the administration is going to change.

Mr. Young. But there are certainly differences in the styles.

Mr. Ray. Yes, there is no question there are different factions in the Soviet Union, and certainly one of the factions does not want to trade with us. Others think that—at least, what they tell us—that commercial trade is something that—or that no commercial trade between two of the greatest economies in the world is an anomalous situation and it should be corrected, and it will help everybody in the world, and hopefully lead toward peaceful coexistence, if that is the right way to say it.

I do not think that they would tend to renege on a commercial transaction, no matter what, once it was made. They emphasize this over and over, and they have traded with some of the European countries—the Netherlands, for instance—for even back in the czar days, when they built ships for them, and they say they are triple A. I just do not expect them to renege on any commercial transaction that they make.

Mr. Young. But in the event that they did, are there any protections that you would have?

Mr. Ray. Well, as I say, No. 1, they are very much in debt in this project, as well as we are. An LNG project is a very unique animal in that it is——

Mr. Young. But is it not possible to nationalize a project like this and just write off their debt?

Mr. RAY. Well, we are not allowed to own anything in Russia in any event, so it is already, the material in Russia they will already own. If they just turned off the gas, is the only alternative, or if they decided to try to sell the gas someplace else. That is not easy because of the nature of LNG projects. They are tailor made all the way practically from the wellhead to the burner tip, because everything is very expensive. You have to have ships, special-made ships, that cannot just call at any port.

There is only, I think there are only three ports in the world that these ships can call on that have any capability of receiving LNG.

Mr. YOUNG. Will those ships be continually owned by your company or will they be Russian merchant ships?

Mr. RAY. When we began negotiations with the Russians they expressed the desire to own part of the fleet. When we carried this message back to the Maritime Administration, they said no deal. You do not have authority to tell the Russians they can own ships coming to the United States. So we conveyed this back to the Russians and told them that as of that day we could no longer discuss ship ownership with them. As it stands today, based on the Maritime Administration instructions, they will be all U.S.-owned.

Mr. YOUNG. So that is one check, then.

Mr. RAY. That is one check.

Mr. YOUNG. Are there any others? Or in a deal with ammonium and phosphates, is that trade off largely dependent on a relationship with the United States, or are there other places where a similar trade off could be made?

Mr. STINGEL. No, it would be a relationship with the United States, phosphates shipped one way, ammonia and urea shipped the other way, part of it consumed in the Soviet Union. In other words, there will be a pipeline built from the Caspian Sea to Odessa where the ammonia ships will be loaded. Part of the ammonia would be used on the way to Odessa and dropped off along the pipeline route within the U.S.S.R. The balance of it would be shipped to our country and consumed here. In return we would ship superphosphate from Florida back over to Russia.

Mr. YOUNG. Are there any other places where you would have phosphates in abundance?

I am trying to get the thing 20 or 40 years down the road when political alinements might be anything but what they are now. I do not know what their interests are, and I think the whole business of international trade leading to world peace is a wonderful gamble. I am willing to take it. But I think in taking it we have responsibility to make sure there are as many protections in it as possible.

Mr. STINGEL. We agree, there is an awful lot of trust in any deal with any country, not only Russia but any country in the world we deal with. I think that it is part of business.

Again, I might comment on what Mr. Ray said. We have never known that the Russians have defaulted on any kind of deal, never imposed a penalty or sanction that we can find on any kind of a deal. We have had a good working relationship with them today, and again, the political climate in Russia could change. There is no particular relationship between the superphosphate growth in this country and

the ammonia coming back. One could go on without the other, for example.

So that again, it is a case, I think, more of mutual trust than it is anything else. I think we have built a détente. I think our countries have worked hard at this, and either it is there or it is not there. There is no guarantee, in other words.

Mr. YOUNG. I am looking at Africa, Nigeria particularly. They are possibly going to be much more political about their use of their natural resources, as the pressure builds up in South Africa and Rhodesia and other places. That is a whole new market area of the world. But if that area lines up with the Soviet Union in any direct way, we may be cut off from an abundance of natural resources.

Now, we are not making the kinds of political moves to assure any continued relationship there, and I am trying to anticipate new kinds of political coalitions that might emerge over the next 20 to 50 years that would be capable of leaving us out once they have access to our technology.

Mr. STINGEL. I think we have said that the technology we are talking about is available to the Soviet Union from other parts of the world. For example, in building foundries or ammonia plants, we have all cited the fact that France or Germany or a number of other countries could do all of this. It is not technology, really, that is important. It is the guarantee of are you going to get paid, and in building a foundry, yes, we get paid faster than we are putting the material in their country. But when it is a long-term arrangement such as involving natural gas or ammonia or something like this, you really do not have as much to go on except the fact that it is a loan, in effect, and they are the party that has to pay eventually.

The selling parties are taking payment, in effect, in ammonia and natural gas. That is like any other business deal. Do you trust the business partner that you have made your deal with? I do not think we have as much influence over that as perhaps does the overall détente between our Governments. I think that is where the importance lies.

Mr. YOUNG. Mr. Thornton, do you have any comment along those lines?

Mr. THORNTON. Well, I might add that all of these projects do not involve repayment in products. I mentioned a few that were simply concerned with supplying materials and equipment to the Russians, and there is a lot of this type of business. It is perfectly straightforward. The technology is reasonably ordinary and it is simply an opportunity to reasonably employ people of American industry by exporting material. About the only basis on which we can do this is with the Eximbank help and their guarantees to commercial banks.

Mr. YOUNG. Thank you very much, gentlemen. I think my time has expired.

Mr. ASHLEY. We have had testimony in the last day or so, gentlemen, suggesting rather strongly in some instances that the Eximbank requirements of certification of U.S. origin is not honored in the practices of many of our multinational corporations, which is to say that—well, it speaks for itself.

Can you comment on that at all?

Mr. STINGEL. We have had no trouble with that, Mr. Ashley. The requirement is that not more than 15 percent can be foreign source

in any of these Eximbank financed deals, and we have been able to live with it. In fact, we have kept it below that in almost everything that we have done; the engineering is all being done in the United States; the equipment is all coming from the United States. The only project we have in which there is some sizable foreign input is in Poland, and the foreign portion is not Eximbank financed.

We subcontracted the actual erection of the facilities back to the Poles. But again, this was less than 15 percent of the total project. We have had no problem with certification of U.S. origin at all. We think that is a good requirement. It keeps the jobs here. It keeps the equipment coming from here.

Mr. ASHLEY. The testimony was that the multinational corporations in particular fudge on the requirements, and it simply is not being lived up to.

Do you have any experience about that or know anything about that, Mr. Thornton?

Mr. THORNTON. Well, in our particular case we have not had any problem, and I do not know why we would or why anybody would want to fudge on the requirements. We operate according to the book and that is it.

Mr. STINGEL. It is easy enough to audit, Mr. Ashley.

Mr. ASHLEY. Yes, I would think so, too. But I wanted to get the record at least in balance a little bit on that point.

Mr. Thornton, before I call on Mr. Conlan, I understand that you wanted permission to put into the record certain correspondence with Secretary Shultz to further your testimony. It that correct, sir?

Mr. THORNTON. That is correct.

Mr. ASHLEY. Without objection, it will be inserted in the record at this point.

[The correspondence with Secretary Shultz referred to by Mr. Thornton, follows:]

COMBUSTION ENGINEERING, INC.,
Stamford, Conn., December 27, 1973.

Hon. GEORGE P. SHULTZ,
Secretary of the Treasury and Chairman, East-West Trade Policy Committee, Washington, D.C.

DEAR MR. SHULTZ: On November 23, 1973 The Lummus Company, a subsidiary of Combustion Engineering, Inc., signed a contract with Techmashimport of the Soviet Union in Moscow for supply of an acetic acid plant based on proprietary technology licensed by Monsanto Company.

This contract is the first complete plant for U.S. export to the Soviet Union. It provides for all technology, engineering services, equipment, materials, and construction supervision to be exported directly from the United States under U.S. Export-Import Bank financing arrangements. It is the culmination of twenty-five negotiating sessions in Moscow in addition to a large number of technical meetings spanning a period of two and one-half years.

As long as four years ago, The Lummus Company was encouraged by the U.S. Department of Commerce and the U.S. Department of State to seek opportunities for export of complete plants directly from the United States to the Soviet Union. When the acetic acid project was identified, The Lummus Company and the Monsanto Company were urged to pursue it by these same government agencies. The Export-Import Bank of the United States was contacted periodically during the past two years and assured Lummus and Monsanto that financing would be available.

The contract only becomes effective after execution of the loan agreement between Vneshtorgbank of the Soviet Union and the Export-Import Bank of the United States. The agreement further provides that the contract is void if the

loan agremeent is not executed by February 21, 1974, which is ninety days after execution of the contract.

The Vneshtorgbank has telexed the Export-Import Bank on October 18, 1973, October 31, 1973, and December 12, 1973, requesting confirmation of financing for the acetic acid contract but has received no such confirmation. The Soviet Union has requested our assistance in the matter and we have contacted the Export-Import Bank. The Export-Import Bank advised that they have not acted on the matter.

After discussing this issue with both Mr. Steven Lazarus, Deputy Assistant Secretary of Commerce and Director of the Bureau of East-West Trade, and Mr. Jack F. Bennett, Deputy Under Secretary of the Treasury, we have concluded that we should address this letter to you as Chairman of the East-West Trade Policy Committee requesting assistance in obtaining favorable action by the Export-Import Bank.

This project involves 45 million dollars of U.S. exports and would provide approximately 200 man years of U.S. engineering work and approximately 1000 man years of U.S. fabrication and manufacturing jobs. If the U.S. financing agreement is not executed by February 21, 1974, Lummus and Monsanto will have to evaluate other possible alternatives using export credits from other nations. Such a move could affect the credibility of the United States as a trading nation and will probably leave U.S. companies very reluctant to develop projects involving supply to the Soviet Union from the United States.

We have been told many times by the U.S. Government that the Administration's Policy is to encourage U.S. export to the Soviet Union. In fact, at a contract signing in Moscow as far back as December 1970, U.S. Ambassador to the Soviet Union Beam expressed his concern that Lummus technology from the United States was being utilized in a Japanese financing package and thus would not help promote U.S. jobs and balance U.S. trade. He urged us at that time to pursue the direct supply of plants from the United States using U.S. financing.

We have proceeded on such a course at great expense to Lummus and Monsanto. ing is obtained we will have to abandon the idea of supplying the plant from A fixed price contract has been signed and unless prompt approval of U.S. financing is obtained we will have to abandon the idea of supplying the plant from the United States due to the cost escalation we are experiencing.

Your immmediate action on this most serious situation is urgently requested. We are available to meet with you or your staff to discuss any facets of the problem and to resolve any questions on the subject.

Very truly yours,

ARTHUR J. SANTRY, JR., *President.*

MONSANTO CO.,
St. Louis, Mo., December 27, 1973.

Hon. GEORGE P. SHULTZ,
Secretary of the Treasury and
Chairman, East-West Trade Policy Committee.

DEAR MR. SECRETARY: This is written with regard to the November 23, 1973, contract between The Lummus Company (a subsidiary of Combustion Engineering, Inc.) and Techmashimport of the Soviet Union for the supply to Techmashimport of an acetic acid plant based on proprietary technology licensed by Monsanto Company.

Mr. Arthur J. Santry, Jr., President of Combustion Engineering, Inc., has shared with me the thoughts that he expressed to you in his letter of this date. We of Monsanto believe that the delay that the Soviet Union has experienced in securing confirmation of financing of this acetic acid project has not only substantial commercial implications for us, but also seems to be working at cross purposes with what I understand are the objectives of our foreign policy.

The purpose of this note is to ask for your assistance in securing prompt execution of the loan agreement between Vneshtorgbank of the Soviet Union and the Export-Import Bank of the United States. We will appreciate your cooperation.

Yours very truly,

JOHN W. HANLEY, *President.*

Mr. ASHLEY. We have also had testimony, gentlemen, very assertive testimony, that Eximbank financing in many instances really is not

necessary, and that the U.S. technology is sufficiently superior that concessionary rates are unjustified and financing on conventional terms would get the job done. I would like to have some statement, some reaction, from you on that. As I say, it was not suggested meekly. It was put in rather strong terms that this was the way it was. Has that been your experience at all?

Mr. RAY. Well, if we use all U.S. goods and services in this project, we will have to have some Eximbank participation. The Bank of America and the First National City Bank have lined up about 80 private banks to go in this project with them. But they just, it is impossible to raise this much money for the project, even though they think it is a good project and they are willing to go on it.

Mr. ASHLEY. But what you are talking to, Mr. Ray, then, is the sheer volume?

Mr. RAY. Yes, sir.

Mr. ASHLEY. As distinct from competitive rates and terms.

Mr. RAY. But we can finance it in Europe. We have been to Germany, France, the United Kingdom, and Italy.

Mr. ASHLEY. On what kind of a basis could you finance it there?

Mr. RAY. We would have to buy their goods and services, of course.

Mr. ASHLEY. But in terms of interest rates?

Mr. RAY. Interest rates would be better than we can get here.

Mr. ASHLEY. Because of Government support?

Mr. RAY. Yes, because the European governments actively support the export of their goods and services.

Mr. THORNTON. I think this is generally true in all cases. We could, for example, in the plant that I referred to earlier, export this equipment out of England at lower rates. We simply have to sell the superiority of the American equipment and a better delivery date.

I might add something about the importance of Eximbank financing. I would like to refer back to a proposition such as the acetic acid plant that I spoke about in my earlier testimony. Here is a plant that produces a product that is going to be marketed in Russia for various and sundry purposes. I think the U.S. banks find it rather difficult to judge the validity of the economics of this product, et cetera, et cetera, whereas the Eximbank is well used to this sort of thing. They have a very large engineering staff and economists who view this entire proposition in the light of whether or not it represents good commonsense to build such a plant.

Of course, then they have their own, if you will, government-to-government assurances, et cetera, and then they in turn guarantee the portion that is handled by the commercial bank, As a consequence, this makes it easy to get a commercial bank to come into the act.

But if they were handling such a loan by themselves, they would be faced with a formidable job that is now presently handled by the Eximbank analysis and guarantees.

Mr. STINGEL. I think one thing that is sometimes overlooked, I think the American businessman is all of that, he is an American. He hates to see an imbalance of trade. He hates to see all of the other consequences that come if we do not do enough business in our country and keep our people employed. I for one always make every effort to try to finance in the United States and to ship our products from here and do the engineering here.

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Now, there are occasions when a project is small enough that the Eximbank is not needed. For example, we are in a joint venture project to build a steel plant in Zambia where we and the Yugoslav Government are joint venturing this, and it is going to be financed, our portion of it, by private U.S. banks, a small consortium, $12 to $15 million.

But when you get into these larger projects such as the Kama foundry where you are talking $300 and $400 million, in the first place the American banks do not have the lending limits that they can do this. They are not allowed to do it. There is just no way you can put this many dollars together. But all in all, basically I think all of us like to see this done in America.

But we can go overseas. But when we do go overseas we must buy the equipment overseas. If they are going to put their money on the line they want something for it.

Mr. ASHLEY. Gentlemen, we have one more witness and it is necessary for me to meet with Secretary Lynn. I am going to turn the gavel over to Mr. Young. I would hope that it might be possible to conclude questioning of this panel by about 4:15.

Mr. CONLAN. Perhaps, Mr. Chairman, we could just finish some questions with this panel, and if we do not come back today we could hear from the remaining witness tomorrow, or if we would like to today, to finish up.

Mr. ASHLEY. I think we better plan to return within the next 5 or 10 minutes after we vote.

[A brief recess was taken.]

Mr. MCKINNEY [presiding]. The subcommittee will come to order. I have to say as a Republican and a second-termer sitting in this chair is a great thrill.

Mr. Conlan, did you have any questions you wanted to ask?

Mr. CONLAN. Mr. Stingel, just a minor point of curiosity here. How many Russians are presently in Pittsburgh in your operation?

Mr. STINGEL. There are 70 there, and they have been there about a year and a half. It varies between 50 and 70.

Mr. CONLAN. How many are over at the Kama River construction site that are Americans?

Mr. STINGEL. We have four people there. That will increase to 25 of our own people and to 100, counting our suppliers, and so forth, who will all be there to start up the equipment.

Mr. CONLAN. I was a little bit surprised that you made a rather bold statement that the Soviets have never imposed penalties, sanctions, or reneged on any deal. I met a gentleman about 10 years ago by the name of Fred Koch, I think his name was, in the oil drilling and exploration business out of Wichita, Kans. I do not know much about that business but he seemed like a fairly honest type of fellow.

He was explaining to me and some others at a little dinner party, when the topic of conversation came around of his experiences in the Soviet Union in the 1920's, which has been the last comparable period to the present one of new visions and horizons for development, investment, exploration abroad. He pointed out there were something like 300 American businessmen that were expropriated at that time. As nearly he could recall, there were 12 that have been compensated in

part, and only 2—Armand Hammer and Averell Harriman—that were fully compensated.

Mr. Hammer, of course, we are now aware in testimony before the Congress, received either portions of the crown jewels and at least a good portion of the Hermitage art from Lenin, which allowed him to operate quite well here in the United States.

Is Occidental Petroleum the one that has the fertilizer aspect of your deal?

Mr. STINGEL. We are bidding to the Russians direct on the ammonia plants, which would become part of the Occidental deal.

Mr. CONLAN. OK then. Then Mr. Hammer is your inside straight man to kind of pull it off. He has got the connection, and his connections are rather well known for their close identification with the Soviet Union and Communist strategy.

I would say, I do not think you can go about and keep your credibility if you make statements that they have not reneged and they have not expropriated, because I think the history books are full of it. As to their morality, the Communists are very moral for their philosophy, and they say that which advances the cause of revolution is good and that which does not advance the cause of revolution is bad. It is wrong for us to steal from each other, but it is correct for us to expropriate someone else's property if it advances the Communist cause.

So I think the evidentiary position, as well as their sort of pseudoreligious philosophy, really argues against your position. I just caution you on making such a statement like that. Business is based on trust in the free world—we do it to a degree, but you tie it down with contracts, you tie it down with a writ of repossession, and so forth. Since we have no possibility of repossession from the Soviet Union, I think this is what concerns some of us in the Congress. Of course it will concern us at the polls if the public ever finds out that we authorized a $2 billion deal; $1 billion apparently to come from the Eximbank, and $1 billion in Eximbank guarantee by the American taxpayers. We as Representatives in effect approving that, or by our inaction not disapproving it. If you went in on your own and if the commercial banks wanted to go ahead with it, I do not think anyone would have any real big concerns. You would be operating as businessmen.

But in effect you are coming for a subsidy from the American taxpayer, for them to take the risk of your operation with a Government that both by its philosophy and its history has a distinct record of welching on deals when it is in their interests from an expropriation point of view.

The other thing that I think was bothering Mr. Young here a little bit was developing resources of another country that does not have the history of Western civilization as we know it, the Anglo-Saxon or even the Napoleonic codes of justice for private property. We find ourselves in a situation now with the Algerians, not to mention the Middle East situation in the Arab areas, but the Algerians with Columbia Gas and Power, have entered into a fantastically expensive natural gas deal at a contract price at $1.25 a thousand cubic feet.

The Algerians are now putting the first preparatory softening stories out that really, they have miscalculated their circumstances, and that $2.50 per thousand cubic feet would be more appropriate.

Once you have your capital in that area, if you guys want to gamble, fine. But when you come to the taxpayers to reinsure your gamble, this is what gives us questions.

I also would point out that I do not think you gentlemen can make the statement that the Soviets would not buy facilities they want without financing from the American Government. As I read an article in the New York Times financial page just a couple of weeks ago that had a story on a steel plant facility over in Germany that the Soviets wanted—a $1 billion deal. They wanted the Germans to build it. They told the German operators that, we want it, but you will have to give us some good credit terms, and so forth, from the German Government.

The German Government declined. The Soviets moved in a couple of weeks later and signed the deal for cash, $1 billion.

Now, it seems to me we have got too many examples of operations on their side that, if they want it, they will pay for it. They will pay cash, they will pay gold, if it is a deal. If they are shopping for a bargain on the free world side, I do not think that we can justify before our workers here in the United States a subsidy to them when they are prepared to pay cash.

I met Mr. Alchimov, and he is a shrewd, tough, charming, warm personality—coldhearted. He is a pro. I am of the opinion that they will come up with cash.

Mr. STINGEL. We got cash on our first engineering contract. Everything else was Eximbank financed. When you think of this Kursk project, the steel mill in Russia, we had an interest in this and still do, because even though all these announcements have been made we do not believe the deal has really been concluded with the Germans. The Germans have been asked for 7.5-percent interest on the deal and were to take back in return certain steel products as part payment for the overall facility, and this was also part of the credit arrangement.

There has been a protocol signed, and this was announced in Der Spiegel or one of the German magazines. We still are being approached about our Hyl direct reduction process, which is part of that project, where they would use natural gas to reduce the iron ore to make iron, and then go from there right on into the balance of steelmaking without going through blast furnaces. We believe the Germans are practically buying this project, and we think eventually it will come about. They will give good credits. There is a consortium of three large German firms backed by the German Government to some extent, trying to get the project. So I think that we have not seen all the history of that.

As far as your earlier comment about reneging on deals, I think that we stand a chance of that in almost any country in the world with which we do business, whether it be Brazil or Venezuela or anywhere else, where work has been done by American firms with American financing and so forth. This could take place in the U.S.S.R. but we hope it will not with the current détente in force.

Perhaps it would take place more frequently or could take place in a Communist country because of its ideologies which is different, of course, than say the South Americans. But again, as I said earlier, when you do business, you make contracts, you hope people pay. We

have people renege on contracts right in this country, and we try to get the plant back. But it is not worth what the contract was worth.

Mr. CONLAN. But you made that decision and you took that calculation?

Mr. STINGEL. That is true.

Mr. CONLAN. That is the only thing that bothers us, that you are asking us, the American taxpayers and the American workers and so forth, to come in and guarantee your risk. I think that throws us into a new, extraordinary ball game, if there was a risk, and if our policy may or may not have been wrong in some of the free world countries. Because at least we have the military leverage, if we wanted to use it, or the economic leverage, if we wanted to use it, to insure that there would be appropriate compensation for anything that was nationalized. We do not have that leverage vis-a-vis the Soviet Union.

Mr. STINGEL. But Mr. Conlan, is it not true that the American Government really expects American industry to create and maintain jobs and employment, and if we did not go out and sell our services and our products overseas we probably would not be able to maintain maximum employment?

It would be up to the Government then to take care of relief or welfare or whatever else had to be done, and this has to enter into it, too. It is a checks and balances system.

Mr. CONLAN. I am not so sure, because I do not know. In testimony we have heard in this Congress—and I am on the Energy Subcommittee of the Science Committee—I have not heard that we have anywhere near mined out the oil and natural gas here in the Western Hemisphere, and if you are talking about cost, if you are talking about jobs, if you are talking about those things, I think keeping it here in the continental area would be better. The proper solution would be to just sit on the boys over at the FPC and let that rate of natural gas come up another 40 or 50 cents. We would develop our resources and not be in a position that both our economic strength, the sensitivity of the fine tuning of our economy, as well as our foreign policy, would all be subject to being turned off at the drop of a foreign hat.

Mr. MCKINNEY. I have tried to make up for some of the indignities the gentleman has suffered from this Chair by giving you 10 minutes instead of 5. But I really think we should progress to Mr. Rinaldo.

Mr. RINALDO. Thank you very much, Mr. Chairman.

I also want to express my appreciation to Chairman Ashley for allowing me to participate in these hearings. Although I am not a member of this subcommittee, this topic has, you might say, aroused such interest in my district—primarily a blue-collar, middle-class, workingman's district in the State of New Jersey—that I have introduced, along with Congressman John Dent, legislation to kill all U.S. Government-supported investment in Russian energy development during our current crisis. There are a number of questions, a number of areas that I just—and you might say the people in my district—do not understand.

For example, if you take a look at the general basis and the underlying criteria for granting credit, questions are asked—questions such as: Are the actual needs discussed, is the venture sound. One looks into

the management capability. You have to determine whether or not payment will be assured in the light of the factors just mentioned.

I am only skimming over the top of this, and in the case of almost every foreign transaction looked into by myself or my staff you obtain all supporting data—this includes financial statements, profit and loss statements and the like, management history and profit expectations. All of this material is disclosed.

My understanding of the Kama River project is that all of this information has not been disclosed. Is that correct?

Mr. STINGEL. That is probably true.

Mr. RINALDO. Yet, in this particular instance, you feel you would go along with this type of transaction despite the fact that some of the basic information that is utilized in the granting of credit in this country has not been given to you and the data is being withheld?

Mr. STINGEL. Evidently the Eximbank has asked for and has been turned down on getting information on the gold reserves, and so forth, of the Soviet Union. I do not know what else they have asked for as a normal course of operation. But I am not too familiar with that part of it. All I know is that on the Kama project the payments that we have been getting as a company as a result of the project have been ahead of our production of labor and so on. But as far as paying back the Export-Import Bank, as far as paying back the commercial banks of the United States, that is beyond my province. I agree with you, there has to be disclosure.

Mr. RINALDO. I do not have time, believe me, to go into all the nondisclosure that I understand has taken place in this case. But certainly, as a representative of the management of a company that is participating in or undertaking a project, I would think that you would be—and I would hope you would be—interested enough to obtain this information and have it added to the record. There are many items of nondisclosure, to the point that I think if this were a U.S. project, credit would not be granted.

Just to follow along the same line—and I am trying to look at it in an educational sense so I get information to bring back to my constituents—I am trying to look at it logically and objectively.

Could you tell the members of this subcommittee whether or not in this particular project you have the same type of internal control over the plant operations, for example, to the same extent and the same degree that you would have over any other foreign deal?

Mr. STINGEL. We guarantee that the plant will do certain things. We engineer it, we furnish certain equipment, and we get other subcontractors to furnish other equipment. We send our people over to Russia to technically assist in the construction which is done by the Russians themselves. We feel that the plant will produce what we said it will produce. We feel we are pretty good engineers and we know what we are doing. We have no guarantee, however, that the Russians will operate the plant properly.

We cannot force them, in other words, to do anything. Neither could we force any customer in America to do something that they did not want to do.

Mr. RINALDO. All right, let me reframe the question.

Would you say you have less control over the internal plant operations in this instance than you do in other projects that your company has undertaken in other foreign countries?

Mr. STINGEL. Not really, no. I think we know just as much. We will have people on the site. We will see every piece of equipment erected. We are training some of the Russians in this country, some 400 of them, in similar operations. When they go back and train their own people to run the facility, I think they will be capable of running them.

Mr. RINALDO. As I understand it, your company has projects in other countries. Is that so?

Mr. STINGEL. Yes, we do. We have half our work overseas.

Mr. RINALDO. All right. Name any of those countries that you are in. I will give you that option.

Mr. STINGEL. All right, take a plant in Venezuela we are constructing.

Mr. RINALDO. All right. You say you have the same type of internal control in the Kama River situation as you would in Venezuela?

Mr. STINGEL. I would say, yes. We are building the plant to specifications.

Mr. RINALDO. I mean afterward.

Mr. STINGEL. Afterward. I do not think we have control in any case, even in this country. If we build a plant for Ford Motor Co., Ford Motor Co.'s people operate it. We do not. We built the plant according to specifications. It is supposed to do a certain job, and it is turned over to the customer.

In this case the customer happens to be the Russians. The Russians are no dummies. They know how to operate facilities, and to make sure they know how to operate them, they are training people in this country on similar equipment so that they can operate it when they get back home. Remember, we are not the customer.

Mr. RINALDO. Yes, but I think the first point that I have attempted to verify here—and it seems that you have agreed with me—is that, No. 1, when it comes to credit, there is a decided lack of information. I would say there is a great deal of information that is not obtainable that is normally required prior to the granting of credits.

Mr. STINGEL. As far as technical information and everything that would be needed for our satisfaction, we have gotten that. We have gone to the Export-Import Bank, we have gone to the commercial banks, and they have satisfied themselves, evidently, because the loans were made. We are not a party to that at all.

In other words, we satisfied ourselves that (a) we could do the job, and (b) that the right technical information was turned over to us to engineer and construct the facility, and we have satisfied those requirements.

Mr. RINALDO. But the Soviets, as I understand it, have not given and do not intend to give the supporting data that is normally required for credits of this type.

Mr. STINGEL. The financial information I do not know. But as far as technical, they have been wide open with us on every bit of technical information we have required in every way to engineer this facility.

Mr. RINALDO. All right. Since you mention technical, will the operation of this plant give the Soviets any new technological knowledge that they do not have at the present time or that they cannot readily obtain elsewhere?

Mr. STINGEL. All right, I would like to answer that in two ways. First, the plant is the most modern foundry, in our opinion, in the world. So it does have some technological advances in it that are not in Russia today. However, the information that we have furnished them and the equipment we are furnishing could be purchased in a number of other countries such as France or Germany or Italy, for example. So there is nothing coming from the United States that they could not get somewhere else.

Mr. RINALDO. Well, I had a lot more questions. But unfortunately, my time has expired.

Mr. McKINNEY. Thank you very much, Mr. Ray, Mr. Stingel, and Mr. Thornton. It has been a pleasure to have you take time out of your valuable and busy days to come down here to Washington and try to explain some of our problems to us.

Our next and final witness this afternoon is Avraham Shifrin from Tel Aviv, Israel. Mr. Shifrin was in 1952 Chief Legal Adviser for the Contracts Division of the Ministry of War Equipment of the Soviet Union.

Mr. Shifrin, would you take a seat?

I believe, Mr. Shifrin, you have a young lady with you that is going to help you.

Mr. SHIFRIN. Yes, I asked her to help me because my English is not good.

Mr. McKINNEY. Your English is a great deal better than my Russian, and I congratulate you. If you would just identify yourself for the record.

Ms. POLTINIKOVA. My name is Eleanora Poltinikova.

Mr. McKINNEY. Mr. Shifrin, you may proceed. It is delightful to have you here.

STATEMENT OF AVRAHAM SHIFRIN; ACCOMPANIED BY ELEANORA POLTINIKOVA

Mr. SHIFRIN. Thank you very much, Mr. Chairman. Thank you very much, gentlemen, for the possibility to tell you my opinion on the subject.

I ask you to excuse my English. I learned English from your countrymen, from Americans in concentration camps of the U.S.S.R. Some of these Americans are still there in the concentration camps.

My name is Avraham Shifrin. Since 1970, I have resided in Israel. From native Russia I came because I was an active Zionist, and at that time the Soviet Government thought that if it sent Zionist activists out of the country the movement would die.

I was born October 8, 1923, in Minsk, Belorussia. When I was 1 year of age my family moved to Moscow. There my father, Isaak Shifrin, was a construction engineer working for the Ministry of Food. I was educated in Moscow for 10 years and completed high

school. I studied at the Moscow Law Institute for 1 year prior to the outbreak of war in 1941.

Meanwhile, in 1938 my father was arrested on the charge of anti-Soviet propaganda. He was sentenced to 10 years hard labor in Siberia. With his arrest, the KGB tried to press my mother into becoming a secret agent. They told her that if she provided information about neighbors, my father would be sent to a "good" concentration camp.

My mother refused. My father was sent to the special Kolyma Complex of concentration camps thousands of miles away near the Bering Strait opposite Alaska. After 10 years of hard labor there, he died. KGB rehabilitated him, posthumously, in 1958.

In 1941, at the beginning of the war, I was sent as the son of "an enemy of the people" to a penal battalion. After being wounded a second time, I realized that the authorities only wanted to kill us.

I saved my life by changing my name to Ibragim and the year of my birth to 1920. Because of this change, the KGB lost me. They sent me to the Regular Army. I became an officer through a battlefield promotion. I was in the Red army for 4 years. I finished with the rank of captain. With demobilization, I was promoted to the rank of major.

In 1945, I was employed as Senior Investigator of the Prosecutor's Office of the U.S.S.R. In that capacity, I was assigned to the Krasnodar District. I traveled a lot in that district, there are 45 regions, over 100 investigators—Rostov District, Caucasus, the area close to the Black Sea.

In every city I saw one, sometimes two, concentration camps with prisoners engaged in various work: digging tunnels, oil rigging, building railroads and highways, construction, and even agriculture. In 1946, I was transferred to Moscow as senior investigator.

Mr. McKinney. I think the policy is that your entire statement will be put in the record as a part of the permanent record, and perhaps, due to the fact that it is getting on to 10 minutes of 5 and we will be having, probably, more votes on this latest bill, perhaps what we could do is to have you summarize some of the instances you would like to for us now, and then we can get to the questions that the gentlemen wish to ask for the record.

Mr. Shifrin. In 1952 I was promoted to Chief Legal Adviser in the Contracts Division of the Ministry of War Equipment, with permission to use special secret documents. I approved and signed all secret contracts. I was in touch with a number of scientific workers and managers of military plants and R. & D. bureaus responsible for new types of weapons in the U.S.S.R. As the responsible official of the Ministry, I saw U.S.S.R. military power grow with the help of military secrets from the United States and other Western countries.

Each day I saw how the U.S.S.R. used the technical achievements of the United States and other Western nations to create weapons for the destruction of those same nations. From prominent inventors and armament builders I frequently heard complaints that it was impossible for Soviet industry to produce a number of parts and components, particularly precision miniature ball bearings. Without such components, there can be no production of modern sophisticated weapons.

I heard many discussions of how to cheat the United States out of strategic military equipment. In 1953 I frequently heard engineers and heads of R. & D. bureaus complain that they could not fill state orders for work for the military industry without United States and European instruments and equipment. Soviet weapons were defective.

In 1971, I heard the same complaints from friends still working in the military industry, particularly in R. & D. bureaus and laboratories for lasers and nuclear energy. My friends told me that, without imported equipment, especially from the United States and West Germany, they simply could not work. The figures given by Soviet instruments were inaccurate.

The U.S.S.R. has obtained U.S. materials for supersonic aviation, for the early Soviet missiles, and for building the first wind tunnels, for testing models of supersonic military aircraft. Frequently, the United States and European strategic materials went through intermediary firms in Switzerland, Norway, Finland, Italy.

Firms frequently sent specifications and blueprints. The U.S.S.R. uses this information in an effort to produce the tools themselves. Foreign tools are bought only when the Soviet attempt to copy fails. In such a way, there was bought in England a complex of machines for the production of very high temperatures. It played a crucial role in the production of Soviet H-bomb.

The Ministry of War Equipment uses technical journals published by the United States and other Western countries. These include Westinghouse, Sikorsky, General Electric and others. By selecting the most valuable U.S. achievements, the Soviet military system does not need to spend much effort, money, and time solely on important military problems. I have often heard responsible Ministry officials say that without these U.S. publications it would be impossible for the U.S.S.R. to advance in many military and industrial fields.

In buying merchant vessels, the U.S.S.R. has the drydocks of its shipbuilding plants to build warships and submarines. When the United States and Western nations build automobile plants in the Soviet Union, they help the U.S.S.R. update its armored car and tank industry. Every auto plant—Fiat, Mack Truck, and Ford—can be converted for tank production in several weeks. In short, any technical help from the United States and the West increases Soviet military might.

Candidly, for the United States of America and the free world, this is a policy of suicide. The U.S.S.R. war plants are indeed bureaus, and laboratories are equipped with machinery and tools from the United States and such other countries as West Germany, Belgium, Italy, and Canada.

The Soviet research and development system includes special R. & D. bureaus which use prisoners exclusively. For example, an R. & D. plant in Leningrad works on building warships. Another in Tula has prisoners assigned to invent weapons and perfect firearms. Another in Moscow uses prisoner specialists on missile projects.

Additionally, political prisoners are widely used in subsidiary work in the military industry and in military construction. As a rule, only prisoners are miners. The mines are located in many places around the U.S.S.R.

Mr. Chairman, nothing better can dramatize the use of prisoners to develop the Soviet war machine than the fact that the Soviet Union's most powerful fighter aircraft was designed by Tupolev while he was himself a political prisoner, or the fact that the chief designer of the Soviet Union's ICBM missiles, Korolev, began his missile work and inventions while in concentration camps.

All of the effects which I have set forth and the others which you can find in my speech now, you can see in many publications, show graphically the great efforts and continuing efforts of the U.S.S.R. From the speeches of trade and industry representatives you could see here that they believe that the United States needs trade with the U.S.S.R. But I see something different. I see that the United States is flourishing today, while the U.S.S.R. cannot exist wtihout help of the United States of America. It is only with trade and financial help from the United States that the U.S.S.R. can produce modern attack weapons against your own country, the United States of America.

Thank you.

[Mr. Shifrin's prepared statement follows:]

Prepared Statement of Avraham Shifrin

My name is Avraham Shifrin. Since 1970, I have resided in Israel. I was sent there from my native Russia because I was an active Zionist, and at that time the Soviet Government though that if it sent Zionist activits out of the country, the movement would die.

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In 1945, I was employed as Senior Investigator of the Prosecutor's Office of the USSR. In that capacity, I was assigned to the Krasnodar District. I traveled a lot in that District (45 regions. over 100 investigators), Rostov Ditsrict, Caucauses, the area close to the Black Sea.

In every city I saw one, sometimes two, concentration camps with prisoners engaged in various work: digging tunnels, oil rigging, building railroads and highways, construction, and even agriculture.

In 1946, I was transferred to Moscow as Senior Investigator. While serving in this position, I took a correspondence course in law. In 1947, I was sent as a Chief Investigator to Tula, 180 kilometers from Moscow. There in Tula, in 1948, I became Chief Legal Advisor in Secret War Plant No. 535. In this position, I received from the KGB special permission to operate with special secret documents.

In 1952, I was promoted to a position of Chief Legal Advisor in the Contracts Division of the Ministry of War Equipment of the USSR. Today, the Ministry of War Equipment is called the Ministry of Defense Industries of the USSR.

I emphasize that by changing the name from Ministry of War Equipment to Ministry of Defense, they perpetrated a fraud. They changed only the name. They did not change the Ministry's purpose and objective. Today, as before, this Ministry produces weapons that are used for attack, not defense.

The system of the Ministry is as follows: It is divided into major divisions: Artillery, Infantry Small Arms, Cannons, Rocketry, etc. Each major division has its subdivisions dealing with groups of arms (personal weapons, machine guns, cannons, anti-aircraft guns, etc.). The main division for logistics serves the whole Ministry. Into the system of the Ministry of Defense Industries are also included (besides plants and weapons-testing ranges) R and D centers (special, state and central); in the USSR they are called Special Construction Bureaus (SKB), meaning Research and Development bureaus. The SKB is a special R and D bureau. In such bureaus the personnel sometimes consists of political prisoners.

It is important to understand that the Soviet Union's most powerful fighting aircraft, the Tupolev, was invented by Tupolev while he, himself, was a political prisoner. It is important to understand that the chief constructor of the Soviet Union's ICBM missiles, Korolev, began his work and inventions on the ICBMs when he was in a concentration camp.

It is also important to understand that the Soviet power made the political prisoners work for strengthening the Soviet State against their will. At that time no one could dare to refuse to work for strengthening the Soviet State against their will. At that time no one could dare to refuse to work for strengthening the Soviet Union. Today we have the first case that we know of where political prisoners inside the camp refuse to work because they don't want to strengthen the Soviet power. This news came to me only this month, in a code letter from my friends in Concentration Camp No. 5110/1–BC in Perm. Today, the struggle of these political prisoners inside the camps is not their struggle for improving their personal conditions. It is their struggle for the whole Free World against the Soviet power.

The plants of the system under the Ministry of War Equipment of the USSR worked, in my time, very irregularly: there was always a lack of raw materials and parts for completing the final product. Sometimes slowdowns lasted 5–7 days each month.

Our plant No. 535 was financed, not from the funds of the Ministry of War Equipment of the USSR, but from the budget of the Minstry of Machines and Machine-Tools Manufacturing (later on, we were financed by the Ministry for Light Machinery and Light Industry). As a matter of fact, in order to disguise the real budget of the country, and to show less sums assigned to armaments, it is systematically practiced that one or two workshops out of 30 or 40 at each military plant are producing civilian products. Thus our plant was producing for a while, in one of the workshops, machine tools for working with metal. Later, it was producing machines for manufacture of stockings. Consequently, it was financed by different civilian ministries. These civilian ministries were paying the whole cost of both the civilian and military production.

Also I can give, as an example, the plant Number 536, where artillery shells were produced. In one workshop of this plant were produced "samovars" (tea sets), and because of this fact, the plant was called "Samovaryn" (which means producing samovars). It was financed from the funds of local industry.

In Izhevsky (Ural) at the plant for armored cars and tanks, they make in one of the workshops motorcycles. That is why the plant is called a "Motorcycle Plant." It is financed by the Ministry for Manufacturing of Transportation Machines.

In the City of Chelyabinsk, the plant for production of barrels for artillery is called a "pipe-making" plant (tubes/pipe plant). That is why the plant is financed as a metallurgical plant. Such a system is characteristic for all plants of the whole military industry. The names of plants for production of atomic weapons are given in code. The title of the plant is registered under the Ministry for Middle Machinery. They are not included in the system of military plants. They are not paid out of the military budget. This ministry takes orders only and directly from the Soviet of Ministers of the USSR.

The USSR plants, R and D Bureaus and laboratories, are equipped with the machinery and tools from all the countries of the world: For example: U.S.A., West Germany, Belgium, Italy, Canada. Some Soviet machine tools are also used, but the management of the industrial plants tries to get from the ministry

only imported capital equipment and instruments. The officers of the Division of Supplies are bribed to get them. Soviet tool manufacturing plants build the prototypes of the American, German and other capital equipment without buying the patents. For example, the tool named "DIP" is copied from an American lathe which is used to produce large parts. It is interesting to uncode the name of the tool. "DIP" means "to chase and surpass." Foreign firms selling equipment to the USSR frequently supply blueprints in advance followed by their equipment. In the USSR, using these drawings, they try to produce similar tools. They buy it only in case of urgent need for a tool, or if the attempt to copy turns into failure. In such a way, there was "bought" in England an assembly of machines for production of very high temperatures. It played a crucial role in production of the Soviet H-bomb.

Buying equipment, tools and strategic materials from the U.S. and Europe is accomplished frequently through intermediary firms in Switzerland, Norway, Sweden, Finland and Italy. These intermediaries buy in the U.S. what the U.S. forbids for export to the USSR. These intermediaries sell these products, for profit, to the Soviet Union.

It would be good here to tell an anecdote which I heard in the Ministry of War Equipment: "We have a very clever Finance Minister. Terrorists wanted to poison him, but he bought out all the poison in the country. But he was still poisoned, said another. Where did they get the poison? Answer: The terrorists offered the Finance Minister a double price for the poison. He resold it."

The USSR obtained from the U.S. materials for supersonic aviation, for their earliest missiles, for building the first areodynamic wind tunnels, for testing models of supersonic military aircraft. I saw and authorized agreements for purchasing strategic products through Norway, Italy, Switzerland and Sweden. In my presence, many times, there were discussions of ways of purchasing and cheating the U.S. with the purpose of obtaining strategic military equipment. I'm also aware of the fact that a number of technological secret patents of the U.S. and Germany were stolen. They were smuggled out and used in the military industry of the USSR. In 1953, I heard, many times, from researchers, engineers, and heads of R and D bureaus complaints that they could not fill state orders for urgent work for the military industry. The reason was that USSR instruments were defective and foreign instruments were awaited.

In 1971, I heard the same complaints from friends still working in the military industry; particularly, in R and D bureaus and laboratories for lasers and nuclear energy. My friends told me that, without imported equipment (especially from the U.S. and Germany), they simply could not work—for the figures given by Soviet instruments are not accurate. From prominent inventors and armaments builders I heard many times that it was impossible for Soviet industry to produce a number of parts and components; particularly, precision miniature ball-bearings. Without such components, there can be no production of modern sophisticated weapons.

During my time of working in the system of the USSR Ministry of War Equipment, I never saw prisoners working at military plants. But in the system of R and D, there are special "SKB" (R and D Bureaus) where there are only prisoners. For example:

(1) SKB–16 (Prison Crosses), located in Leningrad. All of the several hundred scientific workers and engineers there are prisoners. This R and D Bureau is working on new types of warships, submarines and armaments for the Soviet Navy.

(2) SKB–14 in Tula. This houses about 50 specialist prisoners who work on invention of weapons and perfection of firearms.

(3) SKB–4 in Moscow. There, prisoner specialists work on missile projects. (I don't know the number of prisoners working in this specific R and D Bureau.)

In addition, political prisoners are widely used in subsidiary work of the military industry and in military construction. As a rule, only prisoners mine uranium, nickel, molybdenum, chrome, coal and gold. They live in prison camps near the mines. They are located in Kemerovo, Kazakhstan, Tadgikistan, in the Northern Urals, Norilsk, Vorkuta, Pechora, Solihard and a number of other places.

Gold mines are located near the prison camps of Kolyma, Bodaibo, Altay, and other places.

The wood processing industry sends part of its production to military plants and firing ranges. To a great extent, it is located in or near prison camps, and utilizes slave labor (Kasnayarsky, Krai, Irkutsk District, Urals).

Oil drilling, and construction of pipelines for oil and gas, is also a work of the prisoners (Kaspy, Siberia, and Ukraine).

Construction of almost all dams and hydroelectric stations as well as of all other power stations, is the work of prisoners (Bratsk, Hes-hydroelectric station, Omsk HES; Angarsk HES, Irkutsk HES, Volgograd-skaya HES, and a number of others).

Construction of strategic railways and highways was done by slave-laborers (Tadgikistan, Pechora, Bodaibo-Khabarovsk, Bodaibo-Kamchatka).

Construction of military airports (partially undergraund), underground test firing ranges, sites and silos for launching ICBMs, is also the work of prisoners (Balkhash, Aral, Novaya Zemlya, Kamchatka).

The prisoners in the prison camps are not paid for their work. In the best case they may receive 10–20 rubles a month. According to the official rate, this is the equivalent to \$12–\$22. According to the actual rate, it is equal to from \$2 to \$5 per month. Thus, the work fulfilled by prisoners makes the cost of military industry much lower. It contributes to its development and reduces the size of the defense budget.

It should be mentioned that, in the concentration camps and all areas where prisoners' work is being utilized (such as in lumber, woodwork, metal-work, construction of roads, and others), there is wide use of Western technology and capital equipment imported from the U.S. and Western Europe. Political prisoners, with sorrow and indignation, look at this as direct participation of the West in the exploitation of slave labor.

It is characteristic that, in the USSR, it is well known that multimillionaire Armand Hammer participates in assisting the USSR by means of financing various enterprises and constructing industrial plants. Lenin's published letters include direction to USSR financial and trade representatives "to give every possible assistance to our comrade Hammer"; to "provide support for him," and "to help in the development of his financial operations."

In conclusion, I would like to point out USSR use of American technical and trade publications. Many times I saw in the laboratories, in the military R and D centers, and in the civilian R and D Bureaus, special trade and scientific journals from the U.S. and Western Europe published by various companies and firms. Among them were technical publications from Bell Telephone Company, Westinghouse, Sikorsky Aircraft, Phillips, General Electric and many others.

In 1953, before my arrest, acquaintances told me that the Soviet Union doesn't even need espionage. In 1970, after my return from the concentration camps and exile, my acquaintances told me the same thing many times. Much military information and data on technology and science comes from these Western journals and technical publications. The journals publish news about industry in the U.S. and Western Europe.

One of my friends, who works in the field of development of laser weapons, told me in 1970, that without these technical and scientific publications, it would have taken the Soviet Union many years of work and effort to invent and perfect these new weapons and technology to back them up.

The Soviets received everything from the West without the sign "Secret." The information was available in scientific, technical and military publications. These publications are without any doubt, one of the chief factors permitting the Soviet military industry to utilize what has been achieved in the U.S. and in Western Europe—and to go further, trying to surpass the West in the effort to achieve military supremacy.

A great help to the Soviet military industrial complex is the purchase from the U.S. and Western Europe of merchant marine vessels and other non-military equipment. In buying merchant vessels, the USSR can free the dry-docks of the shipbuilding plants for building its warships and submarines.

When the U.S. and Western nations build automobile plants in the Soviet Union, they give the USSR the ability to reorganize and bring up to modern standards its armored car and tank industry. Besides, it should be taken into account, that every automobile plant (Fiat, Mack Truck, Ford) can be transformed to produce tanks within several weeks. Thus, any technical help from the U.S., and the West as a whole, increases the military might of the USSR. This represents a policy of suicide on the part of the U.S. and the Free World.

Mr. McKinney. Thank you very much.

I would like to compliment you on your statement, and say that I have great admiration for your staying power through the problems you have had in your life. It is very difficult for a lot of us in this country to realize what people have been through in other parts of the world.

One thing that interested me is that you said you had left, gone to Israel, I believe, in 1970, but that you were still receiving information in 1971. I thought that Russia was such a locked-in community that it was difficult to get information out. I wondered if that was a typographical mistake or whether there are ways to get information.

Mr. Shifrin. No, it is not a mistake. Some of my friends came, not only in 1971, but now in 1972 and 1973, from the U.S.S.R. They work in many places where they were in connection with military industry. They are now in my country, in Israel.

Mr. McKinney. Do you think that as Russia becomes "more middle class" that is, using that terminology, or more industrialized, more automobiles, more of all of these problems we have, that the people of Russia will demand more and that she will become, in other words, less of a potential threat to the world in your eyes.

Mr. Shifrin. Excuse me, please, I want to understand you. This is a complicated question for me. But I will try my best.

First of all, I am sure that your question shows to me that we are people from other worlds. You cannot change, not this country, not these people. You cannot change the mentality of this government party. At the head of this country it is not government, it is the party—the Communist Party at the head of the government. It is government only under the hand of the Communist Party. You cannot change the mentality of this Communist Party. You cannot change the way in which they go, that is their way. They are not flexible in their industry, in their agriculture. They cannot change the way in which they work in industry and agriculture. That is why they always will need help from other countries, or why they must grab another country as they grabbed all of Eastern Europe. Now they are finished with Eastern Europe. They have exhausted all the sources from these countries: Poland, Hungary, Czechoslovakia, and so on, and so on. Now they need again your help from the West, as in the days of NEP, New Economic Policy of Russia.

That is the only answer which I can give you. When they will finish in this way, when they will get this help, they will need, in my opinion, to catch in their hands all of Europe. They must grab countries because they must live. They want to live, and they cannot live without sources from other countries.

Mr. McKinney. One thing that interests me, and you were very fair when you mentioned the fact that there were other Western European nations involved in the trading with Russia.

One of the things that disturbs me about the thought that we not trade with them, quite frankly, is that Japan is going to trade with them, Germany is going to trade with them, England is going to trade with them, Belgium is going to trade with them, whether we trade

with them or not. In the meantime, this country will be digging itself into an ever deeper balance-of-payments problem while those countries are receiving back the payment for their energy.

If you would like you do not have to answer that now because time has run out and I also must go, but if we can, put it in the record. Let me now turn the meeting over to a new chairman and ask that they respect our 10-minute arrangement so that it is fair to the other members of the subcommittee. I want to thank you very much for being here.

Thank you very much.

Mr. CONLAN [presiding]. Thank you, very much Mr. McKinney. I would like also to say that I appreciated Mr. Shifrin's testimony very much. I only regret that more members of the subcommittee could not be here to hear it. I also regret that some of our capitalists in the United States and some of our foreign policy advisers from a theoretical position also were not here to interface with you. I think there are some in this country who do not understand how the rest of the world operates under a socialist dictatorship. I have been in the Soviet Union myself on a number of occasions and consequently, my horizons have been broadened. I think the question that Mr. McKinney gave to you in what he is suggesting is that if some other countries in the free world are going to give economic help to the Soviet Union, then why should we not be in as a part of the action. He raised that as a theoretical question. We are being asked as a Congress to approve, authorize, and increase a policy that operates on a pure mechanistic basis, apart from any moral considerations.

He did not raise the other alternative which is why has the United States not led other nations in the world in the last two decades in a coordinated program of trying to encourage the Soviet Government to be less repressive at home and to be less aggressive vis-a-vis the free nations of the world? It just seems to me it is commonsense for free men to act together to persuade, to educate or, if necessary, to restrain an aggressor in society, and the world community is no different than the community of New York City or Akron, Ohio, or Phoenix, Ariz.

I think we are missing the boat from a strategic point of view, but that is a third option, which, unfortunately, our present leadership does not have the courage to consider.

You have told us, Mr. Shifrin, about the plants making weapons but financed through other ministries. Is this system of disguising and hiding military expenses characteristic of the military industry of the Soviet Union?

Mr. SHIFRIN. Excuse me, please. Maybe I can add some words to your speech.

When he asked me, I told the chairman why the United States of America cannot show an example to all the world how not to help the enemy, why the United States must give example of how to trade with the enemy. Do you understand?

Mr. CONLAN. Well——

Mr. SHIFRIN. If you will show to all the world how to be strong, maybe all the world will be strong, because you are responsible for all the world. You are the most important and most powerful country in all the world. All the people in all the world look to the United States.

Now, about your question. Like the legal adviser in the ministry of war equipment, I have connections with very many war plants and R. & D. bureaus. In my time, it was approximately around all the country that they gave money for war equipment through other ministries. They did this to hide in their budget money which they gave to weapons. When I returned from the concentration camps and met with some of my friends who still worked in the same places, I asked them about some problems. For example, I asked them: "What is it, now? You still work for light machinery and light industry?" With a smile they answered, "Nothing has changed." That is why I know that today they still hide in their budget money which they give to weapons.

Mr. CONLAN. Thank you. I appreciate that. You know, I have been sitting here listening to this testimony for the last couple of days. I just cannot understand how some businessmen who are otherwise objective, shy away and run from the question when we ask them if the Soviet Union is encouraging Egypt and the Middle Eastern countries, over which they have had either a degree of sovereignty or influence, to keep a boycott on the United States and Western Europe for political purposes. Would not the Soviets, when they had a chance and it was appropriate, do the same thing. This, I think, is the question that many of us have and we are told that these projects will obtain 20 percent of our natural gas supply from the Soviet Union. Well, we have seen what the 6-percent effect of the Middle East oil would have on our economy. Would 20 percent cutoff create an economic tailspin? When I see in Europe that 75 to 80 percent of the fuel oil comes from the Middle East, through the refinery towns of Hamburg, Bremerhaven, Antwerp, Marseille, Leghorn, and Naples, with those refineries having a 30-day supply of crude oil on hand from the Middle East, and if the Soviets directly or through client states, can turn that off, they can break Europe within a period of 60 days. We were in a difficult position with 6-percent cutoff and they are in an absolute collapse position with 75 percent of their fuel oil potentially under alien control.

So I just see the Soviet strategy so clearly. I just hate to be a part of putting present or future American generations at a critical point of no return, because I am sure that some of the businessmen that testify here this week would not be in the frontlines resisting Soviet aggression. They would ask someone else to do it. They would not put their necks on the line, even though they ask now to reap the benefits of such collaboration.

I have no further comments. I yield to Mr. Rinaldo.

Mr. RINALDO. Thank you very much and thank you, Mr. Shifrin, for coming here this afternoon and for your patience in waiting so long before you were finally reached.

I just have a couple of questions and I will phrase them as simply as possible.

First of all, if the Soviet military industry works on irregular production schedules with low quality, how have the Soviets managed to create such sophisticated armaments, in your opinion?

Mr. SHIFRIN. I know the war armaments industry in the U.S.S.R. I have seen it with my own eyes. That is why I can answer you.

I know very well that in this industry they have some points on which they push and press with all the strength they have. They have good heads, good investors. They have machinery and tools from all the world. When they need to make some special weapon, they organize a special group in one complex. They organize 5 or 10 R. & D. laboratories in a line in which they do special work on the parts. They give these special people what they need. They supply these investors. They dispense the raw materials that they need. They give money in required quantity. For example, with nuclear weapons or rockets, they gave these people such a luxurious life that you in the United States cannot understand what delights they enjoy.

You must understand that in each country and in the U.S.S.R. they do have some professional researchers and scientists, who do want to work. When they give them a wonderful situation for work, they can invent and develop these sophisticated weapons.

That is the answer of why they can make some weapons so sophisticated and so good.

Mr. RINALDO. Well, let me put it this way. I understand what you are saying. But if I asked you directly, do they need, in your opinion, American help, do they need American assistance, in other words, do they need American tools, do they need imported equipment to build their plants?

Mr. SHIFRIN. Maybe in my short statement, and maybe with my English, I cannot impress you. But I can tell you about tens and tens of meetings and conversations with my friends who work now in these R. & D. laboratories and war plants. I cannot tell you their names because it would be dangerous for my friends. When they sat with me at the table with a bottle of water, what they told me, you cannot understand: "They asked us, they pushed us, to work in this field. But we have not the equipment from the West, so we cannot make this work in the war industry. We have not these miniature ball bearings or we have not these tools. We have only Russian equipment. Figures from Russian equipment are false. We can make nothing seriously without equipment and tools from the United States and Europe."

Mr. RINALDO. OK, fine. Well, I certainly want to thank you very much, Mr. Shifrin. Your testimony has been very helpful and will add immeasurably to the record.

Thanks again.

Mr. CONLAN. Thank you, Mr. Shifrin.

The meeting is recessed until 10 o'clock tomorrow morning for further testimony by witnesses.

[Whereupon, at 5:20 p.m., the subcommittee adjourned, to reconvene on Thursday, April 25, 1974, at 10 a.m.]

INTERNATIONAL ECONOMIC POLICY

THURSDAY, APRIL 25, 1974

House of Representatives,
Subcommittee on International Trade
of the Committee on Banking and Currency,
Washington, D.C.

The subcommittee met at 10:20 a.m., pursuant to recess, in room 2128 Rayburn House Office Building, Hon. Thomas L. Ashley (chairman of the subcommittee) presiding.

Present: Representatives Ashley, Koch, Young, Moakley, Sullivan, and McKinney.

Mr. Ashley. The subcommittee will come to order.

Hearings on two principal instruments of our national economic policy, export credit and export control, continue this morning, with testimony first from Members of the Congress. In the light of the rather heavy schedule of witnesses facing the subcommittee this morning, it would be the hope of the Chair that the Members appearing be as concise as possible in presenting their views. Of course, the record of the hearings will be open for insertion of the prepared statements of each witness. There are six Members who have indicated their desire to make a statement during this hour.

First we will hear from a member of the Banking Committee, Mr. Rousselot; and from Mr. Dent; who will be presenting their views jointly.

Mr. Rousselot, it is always a pleasure to greet you.

STATEMENTS OF HON. JOHN H. ROUSSELOT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, AND HON. JOHN H. DENT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. Rousselot. Mr. Chairman, we appreciate your giving us the opportunity, both Mr. Dent and myself, to present this legislation before you on the Export-Import Bank.

I think, in consideration of his great experience here, I will be glad to defer to my colleague Mr. Dent, first. I think each of us just want to summarize our concepts of a bill we have jointly introduced.

Mr. Dent.

Mr. Dent. Thank you, Mr. Rousselot.

Mr. Chairman, and members of the subcommittee, I do appreciate the opportunity to discuss with you this morning a problem that I think is more serious than appears on the surface, and one that has more depth to it than appears on the surface.

I suppose, when we started out with the program of the Export-Import Bank, there might have been a good reason for it; but, like everything else we do legislatively in this country of ours, somewhere along the line, through abuse and misuse, the intent of Congress becomes bastardized to the point where you cannot recognize the child or the parents.

The Export-Import Bank has contributed a great deal to the direct unemployment in the United States. It does it in such a way that it is really hard to trace and put your finger on it. But examples are not rare; they are in abundance. You can find, by searching through this little document here, all of the loans made by the Eximbank: some $50 billion worth are recorded, of which $30 billion is still outstanding. Of the $20 billion that is no longer owed to this country, a great deal of it was forgiven or just forgotten. We are the only people in the world that try to do the banking business by borrowing at high rates and loaning it out at low rates. It just does not work.

It reminds me of the story they tell about the two competitors in business. The one said to the other one day, "You know, I cannot understand how you can survive." He said, "We both have the same wholesale house, and I sell my shoestrings for 5 cents a pair because they cost me 4 cents, and you sell them for three for a dime. How do you do it?" He said "Well, I do one hell of a volume."

I guess that our big claim to fame on the Eximbank is that we do one hell of a volume.

Now, we are in the midst of a situation that no person that I know of can give you any estimate of the total amount already committed to the Soviet Union. This resolution is a very simple proposal. I believe that it is incumbent upon this subcommittee to either negatively or affirmatively bring it to the House, with or without recommendation one way or the other, in order that the subject may be aired in the greater arena of the House of Representatives.

We would prohibit the Bank from extending credit to a Communist country unless the Congress determines each such transaction will be in the national interest, through the adoption of a concurrent resolution in section 2(b) (2) and (3). The act would also be amended to prohibit the Bank from extending credit to any nation which was engaged in armed conflict with the United States.

We would further amend section 2(b) to prohibit the Bank from extending credit to any nonmarket economy country which denies its citizens the right of emigration.

I sometimes question whether I strongly believe in that particular part, because I have never been one who thought that we, as a nation, ought to set ourselves up to write the constitutions and bylaws of other nations, and the way they live. I know we would resent it.

Section 11 would be repealed. This section allows private participation in the operation of the Eximbank in spite of the provisions in the Johnson Debt Default Act.

What we have discovered is that no matter what Congress does, and what Congress establishes as a rule of behavior, the executive branch merely passes over not only the intent, but the will, of Congress. You can easily understand that if you will go back to February 22, 1972, in the record of the Congress, page H–1303, the 22d of February in

1972; at that time I gave to the House a direct word-for-word report on the actions and the findings of the Committee of 100, paid for by our State Department, under the leadership of the chairman of the Corn Products International Corp. They came back to report exactly the details of their conversations with Kosygin on trade. Mr. Kosygin laid down two specific terms before he would discuss any trade proposals or agreements.

First, the Soviet Union must be given most-favored-nation treatment. This means, of course, that over the 30 years that we have had this in our law, we have made concessions to many countries. We would now wrap up all 30 years of concessions that were given for particular reasons during those 30 years to separate and distinct countries, with some quid pro quo, but we give it all at this time in one fell swoop to Soviet Russia.

The second provision, before he would even discuss or lay down his ideas on what we could do, that all avenues of credit including the Eximbank financing would be made available to the Soviet Union.

Now, let me just say this to you. Mr. Kosygin said that plants that would be built with American know-how and American money would only be paid for by selling to the United States the production of those plants. There would be nothing paid for other than through the barter route, and that is why now we have committed ourselves—and I want this to be in the record at this point—from the calculations that I have made and received from sources that ought to know what they are talking about, we have committed ourselves at this point for $33 billion. Occidental, through its great friend of Russia, has committed us, because Occidental, of course, is part of us, to something like $10 billion.

In a very short period of time we have proposed a bill on aboveground pipeline that many engineers and experts say is impossible to build. If it is built, it would be the most expensive engineering project in the history of pipeline construction, including our own difficult and costly job on the northern slopes.

We are having difficulty getting financing and when we do get financing, it will be financed at a high cost, which will be reflected in American production in every phase of productivity where we use the oil coming from the northern slopes because of the money we have to put in at a high interest rate.

This must come to the floor by one means or another for debate and discussion so the American people know what we are getting into. We are no longer a nation that can afford the extravagance of big weddings and costly funerals. We are tightening our belts in this Nation but the people cannot do it without Congress and Congress is to blame. Any power usurped by the President or the Executive, the administrative branches of Government, is power that we gave them. We are the only voice of the people directly responsible to the people, and in turn, the people are responsible to us.

My friend, Mr. Rousselot, my friend, Mr. Ichord, myself, Mr. Aspin, and others have tried to awaken the Congress to some of these very difficult problems. But when you read this particular report, which is bona fide and comes from the statement made directly by Mr. Kosygin to the group, it gives one cause to pause. He laid down exactly what he would do and that is exactly what Mr. Kissinger signed. I

said, Mr. Kissinger may go down in history as the most effective prime minister we have ever had or foreign minister, whichever title you want to give him, but I will say he may do that, but I know one thing: he will go down in history as the most expensive we have ever had.

We are just beginning to find out. Last night I read where Dean Rusk said the minimum years of aid we can anticipate under the agreements signed by Mr. Kissinger to Vietnam is 20 years, and I say that is not even half of it because we are already in the 22d year of paying the same kind of aid to Korea for a war that was ended 22 years ago.

So all of these things mean one thing, and that is unemployment and that is the major reason I am here today.

We loan Italy $11 million which will be covered by my friend, Mr Ichord, shortly. We have an American corporation with totally owned subsidiaries in South America. In the record you will find the country and the details.

We are loaning money on the Eximbank to the subsidiary totally owned by an American corporation to increase its productivity in order to displace the products shipped from the domestic plant to that country to add to what they do produce in the subsidiary. They will then be not only self-sufficient, but it is anticipated they will have as much as 25-percent surplus production, which will find its way back into the United States in very short order.

Now, we talk about 80 million people working. That is true. How many of them are working out of public funds? How many are producing goods? A sound economy demands that no more than one and one-half persons can carry on successfully in an economy, one and one-half in service industries and nonproduction jobs to every one person. We have better than one to three, and the proof of it is in the $500 billion we owe as a nation. If you do not stop this kind of loans to countries that have more money than we have—do you know how much surplus is in foreign banks at this moment, that we owe? According to our calculations from the subcommittee, $117 billion. Where is it going? We are giving money out of Eximbank for these countries and they are coming right over here and buying up our own industries, our own minerals.

Foreigners are purchasing hundreds of thousands of marshland acres on the Atlantic coast off North and South Carolina that we use for bird havens, and they are going to produce wheat and corn and cotton for transshipment to their own countries.

You know, we fight wars to defend this country and save our institutions. Why? Why do we do it? All you do is just have these kinds of trade deals, have the Eximbank pour it out. We borrow it, they borrow it from us, and turn right around and come over here and spend their dollar where they get a dollar for it, and give us 66 cents for it when we go over there.

I just beg this subcommittee for one thing only, and that is this: give us an opportunity to air this situation out. There has not been a debate in the fundamentals of these particular kinds of laws that we passed in 30 years. Oh, there is a slapstick, comedy type of operation when they bring up the foreign aid bill and the Eximbank bill and all the rest of them.

I say it, I say it now, and I say it honestly, and I say it in honest criticism, but as a statement of fact: we have the greatest means of dissemination of news and information ever built anywhere in the world or put together by any group in the world or any country, and we have the dumbest people.

If you read the catalog of the daily papers of the six headline issues on any given day, your 15 top newspapers, evening papers and some 28 dailies, you will find that other than Watergate, there is not a single one of them that gets more than one or two of these papers with a front page story. The newspapers at least do something: they provide a little bit of information that they give to the commentators on TV so they have something to say.

We are the best educated people in the world. We have taken good and the bad from all over the world in every country, and we have made them into what has been the envy of the world. It took us 200 years almost to get to where we are, and we will not last the next 200 years, and I would venture what little life I have left, if we go the way we are going. You cannot do what we are doing and survive and I have said that for the last 20 years to this Congress. I am sorry to say I am such a prophet because everything I have said is in the record of Congress, everything has come exactly on the line or worse than what I have predicted.

I predicted the debt. I predicted it 10 years ago, and also predicted that within 10 years the dollar would be depreciated, and it was. I am the least educated Member of Congress and if I can know it, why cannot these educated Members of Congress know that we are fighting for survival in this country. We have got to get this on the floor for an open debate, unlimited debate if it takes a week or 2 weeks, all the whole subject matter.

Last night I read where we are going to get a request for $5,200 million for foreign aid, and we owe these countries in Europe $117 billion. It is the highest priced blackmail in the history of the world.

Thank you very much.

Mr. Rousselot. Thank you, Mr. Dent.

I know my good colleague, John Dent, has been very much concerned about this whole issue of trade and the impact that the Export-Import Bank has had on our trade for a long time. He has put many items in the record. He has spoken on the issue on special orders. He has tried to bring it to the attention of Congress and the public and I hope that this subcommittee implements his recommendation, not only the subcommittee but our entire committee, before we just automatically extend the Export-Import Bank legislation when it expires in June. We should take a hard look to know what it has done, what it has not done, how has it really benefited or not benefited the industries and others in this country, as well as what it has done in other countries.

Mr. Chairman, I ask unanimous consent that the joint statement of Mr. Dent and myself be put in the record.

Mr. Ashley. Without objection, that will be done.

Mr. Rousselot. And the exhibits we have with it.

I would like to discuss briefly some of the points we have tried to bring out in our bill that we have jointly sponsored that would amend

this act in what we consider to be important places, and Mr. Dent has already referred to some of them, but I would like to review a couple.

First of all, I think that we have forgotten as a Congress that article I, section 8 of the Constitution says that Congress has a responsibility in the field of regulating trade with foreign nations. I think unfortunately the Export-Import Bank is one area in which we constantly delegate away from ourselves important participation in the decisionmaking process of foreign trade. Article I, section 8 of the Constitution gives us that responsibility. The Export-Import Bank acts are a good example of tremendous powers that we have given to the executive branch, and then we have suddenly found out all kinds of things that have happened.

The recent announcements of certain kinds of arrangements with Russia that were never intended in the original laws that we passed are a good example. These powers, which we have abandoned, have been assumed by these agencies and they have gone ahead in good faith, or what they have considered to be good faith, and we really have not taken the time and effort to oversee them. We have continued to just blindly redelegate that power without really properly considering it.

This is a congressional responsibility. There has been a lot of voices in Congress complaining about too much delegation of power to the executive branch. This is a clear area in which we should concentrate, and we ought to do something about it by making sure that we debate this issue fully, and that we know what the full ramifications are. As Mr. Dent has explained, the Export-Import Bank gives an extensive accounting in reports. I am not sure of all the loans that we have made were justified, and I am not sure we really reviewed them carefully to see what the end results are.

No. 2, the amendments to section 2(b) and section 2(b)(3) of the act that we recommend in our bills, would give Congress the responsibility to approve Eximbank transactions with Communist countries or any nation to which Congress believes it would not be in the national interest for the Eximbank to extend credits.

Now there have been a lot of complaints from Members of Congress about some of these credits that we are now extending, and yet we have not really participated in that decisionmaking and I think we ought to resume that participation, especially on the issue of the kinds of terms that are being extended. Let me give a couple of quick examples.

In many cases the Export-Import Bank extends credits. Sure, they are for industries here that are providing engineering service or products overseas, but at what rate—6 percent? Yet as Mrs. Sullivan knows and Mr. McKinney and Lud Ashley know, our own constituents are lucky if they can get a 9 or 10 percent loan for their mortgage, and yet, is that what we want to do, extend this kind of credit overseas? Sure, it is supposedly helping some of our industries. In some cases, I am not so sure how much it is helping.

But in any case, we ought to examine the kinds of terms that are extended under these programs very carefully, and then when we get letters from our constituents that say, how come I cannot even get a loan for 9 or 10 percent in this country, but Russia is getting a loan at

6 percent? Is that right? Is that fair? We ought to make it maybe the same across the board.

Now, also, we are trying to cover in these amendments that both Mr. Dent and I have recommended to this legislation, that it would open up all financial data and background material, so that we know everything possible about these loans, and before the fact, not after the fact, not after the "deal" has already been struck and then we are asked to just "go along to get along." I do not think that is right.

I think that we should participate, because there are some cases where it may not be in our national interest, and Congress ought to help decide that. It should not be an arbitrary decision made by the Export-Import Bank alone and/or the State Department.

Now we also are asking that section 11 of the Export-Import Bank be repealed because this provision currently allows private participation by commercial banks in Export-Import Bank transaction in spite of the provisions of the Johnson Debt Default Act. Now that act provided that private participation could not occur in those countries where they owe us substantial amounts of money, and I think that is an important factor because there are many countries that owe us substantial amount of debt, and we have done nothing to see that they are settled. In some cases, "settlement" has been made by Executive fiat. It has just been written off, and I think we ought to pay attention to that Johnson Debt Default Act. We ought to make it fully operative and make sure that we speak to that issue in this legislation.

Also, I think we ought to try to make sure that in this legislation that is before us that we put a stop to the use of the Bank as a political tool of just the executive branch of the Government, and that, if it is to be a political tool, then we in the Congress should decide and participate in the policymaking as to that, and especially, to insure that the Bank functions for the purpose originally stated: "To aid in financing and to facilitate exports and imports in the exchange of commodities that help our businesses."

Fine. But if it is to be used as a political tool and if its benefits are to be negotiated away at the bargaining table and we have not even participated in it, or are aware of it until after the fact, I do not think that is correct. We have delegated away too much power to the executive branch. Our taxpayers, in many cases, as Mr. Dent has already mentioned, have been asked to help participate in the financing of many of these programs through the foreign aid program. We put billions of dollars into these countries, they then turn around and use these dollars to finance these projects, and since there are taxpayer dollars involved in some cases, I think that we have a right as a Congress to participate. Although I realize the Export-Import Bank is slightly different than the foreign aid program, that it does result in some cases in the ability of a foreign country to buy our services and products. But we must also ask, as Mr. Dent has already done. "What is it doing to the labor force in our own country? Is it creating substantial unemployment and improperly? Could these businesses overseas really compete in the natural money market for these services or do they need guarantees of 6 and 7 percent from our Export-Import Bank to even make them go?" That becomes a real problem.

I want to mention that there are 200, as Mr. Dent has already mentioned, 200 Members of Congress who have already cosponsored the Ichord-Dent-Aspin resolution. I am one of those cosponsors. I think that that resolution should be clearly taken up by this subcommittee because it does relate to this issue of whether the Export-Import Bank can just carte blanche, go out and make these deals without the consent of Congress. The Congress should have the opportunity to look at what the effects of these deals are on the entire economy of our country, and that is becoming important as more and more Members of Congress are finding out. Now we are finding that the Arab nations and the Japanese are investing, as Mr. Dent pointed out, tremendous amounts of money in this country. A lot of this has come about as a result of the very favorable grants that we have made through foreign aid.

We ought to connect that up with the Export-Import Bank. The Japanese and Arab nations can come over here as a result of our tremendous foreign aid to them through the years and pay cash for hotels, golf courses, cattle ranches, everything else. Why do they need the Export-Import Bank guarantees? Why can they not just go to the normal banking facilities of the world and make their own deals if it is "such a good deal"? If it is such a good arrangement, let them go to the natural marketplaces. They have already got substantial amounts of our cash that we have given them. So why do they need this "great Export-Import Bank facility" that gives them very low-interest rates, tremendous bargains? No wonder the Russians want it. Sure, they want it. They do not want to have to pay the interest rates being charged in the regular marketplace.

I think it is important that we connect the Export-Import Bank extension of authority with the impact that it has on this country, the undermining of our very substantial industries and employment in this country. We have got to begin to take notice of these issues. We have got a lot of Members of this body that complain constantly about the problem of unemployment. What effect have the Export-Import Bank guarantees had on that unemployment? We ought to know that and look into it hard. I agree with my colleague, Mr. Dent. I hope that we will not only debate this thoroughly in the subcommittee, but also in the full committee and make sure on the floor that we have full open rule so that we can debate it freely and consider its total impact on this country.

Thank you, Mr. Chairman.

[The joint prepared statement and exhibits of the Honorable John H. Dent and the Honorable John H. Rousselot follow:]

JOINT STATEMENT OF

THE HONORABLE JOHN H. ROUSSELOT

AND

THE HONORABLE JOHN H. DENT

BEFORE THE INTERNATIONAL TRADE SUBCOMMITTEE
OF THE HOUSE COMMITTEE ON BANKING AND CURRENCY
ON AMENDMENTS TO THE EXPORT-IMPORT BANK ACT OF 1945

April 25, 1974

Mr. Chairman and Members of the Subcommittee:

We are appearing before you today in support of legislation, H.R. 14257 and H.R. 14302, which would amend the Export-Import Bank Act of 1945 in four instances:

1. Section 2(b)(2) of the Act would be amended to prohibit the Bank from guaranteeing, insuring, or extending credit, or participating in any extension of credit to a Communist country unless the Congress determines each such transaction would be in the national interest through the adoption of a concurrent resolution. For purposes of this subsection, the present law defines Communist countries as those listed in Section 620(f) of the Foreign Assistance Act of 1961, as amended, (22 U.S.C. 2370). (See Exhibit A)

As Members of this Subcommittee know, Section 2(b)(2) of the Act prohibits the Bank from extending credits to Communists countries unless the President determines that such a transaction is in the national interest and reports this finding to the Senate and House within thirty days. A controversy has recently arisen over whether this subsection requires that a separate determination of national interest be made for each individual transaction, or if the current practice of a Presidential determination on a country-by-country basis satisfies the intent of Section 2(b)(2). Senator Richard Schweiker requested a ruling from the General

Accounting Office on this point, and in response, Comptroller General Staats stated in a March 8 letter to the Senator: "Thus the language of section 2(b)(2) of the present act, together with its legislative history, clearly requires a separate determination for each transaction." (See Exhibit B)

On March 11, 1974, Eximbank suspended consideration of credits to the Soviet Union, Yugoslavia, Romania, and Poland pending clarification of the legal situation. A March 15, 1974 memorandum from J.E. Corette III, General Counsel of Eximbank, to the Board of Directors of the Bank, took the position that the Bank had acted legally, and that the President has the authority under Section 2(b)(2) to grant exemptions based on national interest on a country-by-country basis. The view of the Bank is that since the language of Section 2(b)(2), and the Presidential practice of making determinations on a country-by-country basis, has never been challenged by Congress before, Congress has in fact given its approval to this procedure. (Before being incorporated into the Export-Import Bank Act of 1968, similar language to Section 2(b)(2) had been included in appropriations acts beginning in FY 1964.)

In a letter to the President on March 21 (See Exhibit C), Attorney General Saxbe upheld the Bank's findings that by not objecting previously to determinations on a country-by-country basis, Congress could not object now and expect to win its case. However, the Attorney General recognized that, "The legislative history of the provision is somewhat ambiguous...Moreover, the

language of Section 2(b)(2) permits more than one possible interpretation on the issue raised by the Comptroller General... Given the fact that Section 2(b)(2) is unclear...".

Mr. Chairman, the Bank has now resumed extending credits to the U.S.S.R. and other Communist nations based on the broad country-by-country determinations of national interest that have been made by Presidents over the last ten years. We are not convinced by the arguments of the Bank's General Counsel and the Attorney General that case-by-case determinations are not required by present law. However, what is clear to us, is that Congress must act now to absolutely clarify the intent of Section 2(b)(2), and it is also apparent to us that the most effective way this can be accomplished is to amend the Act as we suggest so that there will be no doubt as to the procedure to be followed, and in a way that will allow Congress to exercise oversight authority with regards to the Bank's activities involving these Communist nations. Our proposal would give Congress an active role in approving the extension of credits to Communist countries, and would allow Congress to review all of the financial data and particulars before the Bank could procede with transactions such as the Russian gas deal.

William J. Casey, President and Chairman of Eximbank, testified before the Subcommittee on International Finance of the Senate Banking Committee on April 2. In his prepared statement, he discussed the proposal to sell Russia drilling equipement for the gas exploration project near Yakutsk, and

stated that, "We will have to evaluate possible adverse effects on the domestic economy in terms of whether at this time it is better to use drilling and other such equipment for exploration in the United States rather than in Siberia." It is astounding that there can be any doubt. We are asking the citizens of this country to abide by an emergency fuel allocation program, and at the same time we are telling them that their tax dollars may be used to finance drilling in Russia. It is pure folly to believe that Americans will reap any benefits from such a deal. (Veba AG, a West German state-controlled oil company, has recently been involved in a dispute with the Soviet Union over the quantity and price of promised Russian petroleum.) A March 22nd Washington Post editorial, which discussed the Bank furnishing credits for energy development projects in the Soviet Union, concluded that, "Such investments would only be secured by Soviet good faith which these days is, unfortunately, in short supply."

Have we so quickly forgotten the Russian grain deal?

2. Section 2(b)(3) of the Act would be amended to prohibit the Bank from guaranteeing, insuring, or extending credit, or participating in the extension of credit to any nation which is engaged in armed conflict with the Armed Forces of the United States unless Congress determines each such transaction to be in the national interest through the approval of a concurrent resolution. This provision is consistent with the amendment to Section 2(b)(2).

Subsection 2(b)(3) currently provides that the Bank is prohibited from extending credits to a country with which we are engaged in armed conflict, or for the purchase of any product which is to be used principally by a country with which we are engaged in armed conflict. Also, the President is given the authority to prohibit the Bank from extending credit to any nation if he determines that any such transaction would be contrary to the national interest. Our amendment would transfer this authority to the Congress.

As Members of this Subcommittee will recall, the original language of the Fino amendment prohibited the Bank from financing trade with any nation which is engaged in armed conflict, declared or otherwise, with the United States; or financing trade with any nation which furnishes by direct governmental action goods, supplies, military assistance or advisors to a nation with which we are engaged in armed conflict; or financing the purchase of a product which is to be used by a country with which we are engaged in armed conflict or by any country supporting it.

When amendments to the Act were considered by Congress in 1971, the House stood firm on keeping the original language of the Fino amendment, but the Senate modified this provision, and what is now Section 2(b)(3) is the way this provision came out of conference. Mr. Corette, the General Counsel for Eximbank, stated in his memorandum to the Board that the modification of the Fino amendment has enabled the President to make additional determinations of national interest under Section 2(b)(2).

Congress must regain control of its proper Constitutional role, "To regulate Commerce with foreign Nations,".

3. Section 2(b) of the Act would be further amended to prohibit the Bank from guaranteeing, insuring, or extending credit, or participating in the extension of credit with respect to any non-market economy country which denies its citizens the right of emigration. The non-market economy countries, which are listed in headnote 3(e) of the Tariff Schedules of the United States, are Albania, Bulgaria, the People's Republic of China, Cuba, Czechoslovakia, East Germany, Estonia, Hungary, those parts of Indochina under Communist control or domination, North Korea, Kurile Islands, Latvia, Lithuania, Outer Mongolia, Romania, Southern Sakhalin, Tanna Tuva, Tibet, and the U.S.S.R. Trade expansion legislation enacted by Congress has excepted Poland and Yugoslavia.

When the House considered trade reform legislation (H.R. 10710) in December, it adopted by a recorded vote of 319-80, an amendment offered by Congressman Charles Vanik which would deny loans, credits, and guarantees to any non-market economy country which does not recognize the right of its citizens to emigrate. Our amendment to include this language in the Export-Import Bank Act is consistent with the strong position taken by the House when we overwhelmingly approved the Vanik amendment to the trade bill. Our amendment reinforces the intent of the House that most-favored-nation treatment and credits should not be extended to those countries which deny this most basic right.

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4. Section 11 of the Export-Import Bank Act would be repealed. This section allows private participation in the transactions of the Bank in spite of the provisions in the Johnson Debt Default Act (18 U.S.C. 955). (See Exhibit D)

The Johnson Debt Default Act prohibits individuals, partnerships, corporations, or associations, other than public corporations, from making loans to a foreign government which is in default in the payment of its obligations to the United States--with the exception of foreign governments which are members of both the International Monetary Fund and the International Bank for Reconstruction and Development. If this provision is repealed as we suggest, commercial banks will no longer be able to participate with Eximbank in transactions with the U.S.S.R. until the Russians are no longer in default in the repayment of debts owed to this country.

More than $11 billion was made available to the U.S.S.R. for defense-related items in the years 1941-46. Under the terms of the October 18, 1972 Lend Lease Settlement, the U.S.S.R. will only repay $722 million of the $11 billion. To date only $36 million has been repaid under the Lend Lease Settlement, and the next payment of $12 million is not scheduled to be made until July 1, 1975. The U.S.S.R. is attempting to blackmail the United States into extending most-favored-nation treatment by requiring MFN status as a condition before payments on the remaining $674 million will be scheduled. This is an intolerable situation, and Congress

must take a firm position to demonstrate to the Russian government that we will not be coerced into submission.

On October 18, 1972, the Agreement on Financing Procedures was signed by Henry Kearns, then President of the Export-Import Bank, and Vladimir S. Alkhimov, the U.S.S.R.'s Vice Minister of Foreign Trade. Among other things, this agreement authorizes Russia to receive credits from the Export-Import Bank in U.S. dollars at interest rates and other conditions which will be no less favorable than those usually extended to other purchasers. This means that on commitments through February 4, 1974, a six-percent interest rate has been applied (and after that date, seven percent) with maturities of seven to eight years, and grace periods anywhere from ten months to more than three years.

Also on October 18, 1972, a three-year Trade Agreement was signed by N. S. Patolichev, of the Soviet Union, and Peter G. Peterson, then Secretary of Commerce. In Article I of the Trade Agreement, it was agreed that the U.S. shall accord unconditionally to Soviet manufactured products treatment no less favorable than that accorded like products originating in a third country. Essentially this was a guarantee to the U.S.S.R. of MFN treatment. This agreement cannot be entered into force until MFN treatment is approved by Congress.

October 18, 1972 is the date of the Lend Lease Settlement, the date both the Trade Agreement and the Agreement on Financing Procedures were signed, and it is also the date the President made a broad determination of national interest in favor of the

U.S.S.R. with respect to waiving the prohibitions in Section 2(b)(2) of the Export-Import Bank Act.

Mr. Chairman, we believe that Congress must put a stop to the use of the Export-Import Bank as a political tool.

The U.S.S.R. has received approved credits on projects whose export value is estimated at $642,132,000. Eximbank has been heavily involved in the financing of these projects--fifteen Eximbank regular loans amount to $288,956,000, and ten preshipment cover guarantees to U.S. exporters amount to $118,932,000. A complete listing of Eximbank loans to Communist countries is included as Exhibit E.

A March 22 Wall Street Journal article announced that Occidental Petroleum Corporation had signed an $8 million design contract for an international trade center to be built in Moscow by 1977. Chase Manhattan Bank will lend $36 million for this project, and Eximbank has approved $36 million more to help finance the project. However, the Soviet Union will only put up $8 million in hard currency. Could any American industry put up $8 million and borrow $72 million at the interest rate being offered to the Soviets through Eximbank with liberal terms of repayment?

Congress must act, and it must act now, to bring the transactions of Eximbank with Communist countries under Congressional control. Our responsibility to regulate trade with foreign countries is clearly defined in Article I, Section 8 of the Constitution. We have delegated away too much of our authority to the Executive Branch, and we believe our bill offers Congress the opportunity to regain control of an important Constitutional

prerogative.

We appreciate having this opportunity to appear before you today, and we strongly urge the Subcommittee to favorably consider and adopt the provisions in H.R. 14257 and H.R. 14302.

EXHIBIT A

EXCERPT FROM SEC. 620(f) OF THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED, PUBLIC LAW 87-565, 87TH CONG. (76 STAT. 261), AUG. 1, 1962; PUBLIC LAW 88-633, 88TH CONG. (78 STAT. 1013), OCT. 7, 1964. (22 U.S.C. 2370)

For the purposes of this subsection, the phrase "Communist country" shall include specifically, but not be limited to, the following countries:

Peoples Republic of Albania,
Peoples Republic of Bulgaria,
Peoples Republic of China,
Czechoslovak Socialist Republic,
German Democratic Republic (East Germany),
Estonia,
Hungarian Peoples Republic,
Latvia,
Lithuania,
North Korean Peoples Republic,
North Vietnam,
Outer Mongolia - Mongolian Peoples Republic,
Polish Peoples Republic,
Rumanian Peoples Republic,
Tibet,
Federal Peoples Republic of Yugoslavia,
Cuba, and
Union of Soviet Socialist Republics (including its captive constituent republics).[1]

EXHIBIT B

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-178205

March 8, 1974

The Honorable Richard S. Schweiker
United States Senate

Dear Senator Schweiker:

Your letter of January 31, 1974, raises several questions concerning the participation of the Export-Import Bank (Eximbank) in transactions involving the Soviet Union. These questions arise primarily in view of section 2(b)(2) of the Export-Import Bank Act of 1945, as amended, which prohibits the Bank from guaranteeing, insuring or extending credits in connection with the purchase or lease of any product by a Communist country except in the case of any transaction which the President determines would be in the national interest and so reports to the Congress.

You state it to be your understanding that on October 18, 1972, President Nixon determined it to be in the national interest for Eximbank to extend credits to the Soviet Union. Subsequent to this Presidential determination, Eximbank has extended credits to the Soviet Union in numerous transactions, and the Bank has reported such transactions to the Congress. However, no separate determination of national interest for each individual transaction has been issued by the President.

You also indicate that Eximbank is presently considering an application by the Soviet Union for a $49.5 million direct loan to be invested in an energy development project in the Yakutsk area of Eastern Siberia, and that the Soviet Union is expected to seek additional Eximbank credits to finance a $7.6 billion North Star energy development project in Western Siberia.

In consideration of the foregoing matters, you request our response to the following specific questions:

(1) In view of the restrictions contained in the Export-Import Bank Act of 1945, as amended, has the Bank acted in compliance with applicable law in extending credit to the Soviet Union in the absence of individual Presidential determinations, submitted to Congress, to the effect that each such transaction is in the national interest?

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(2) Regardless of the legality of prior loans, in view of the present American energy crisis, can the Eximbank legally extend credit to the Soviet Union for the pending Yakutsk energy development project in the absence of a specific Presidential determination, submitted to Congress, that such transaction is in the national interest?

(3) What is the total amount of Eximbank funds presently outstanding in loans, guarantees or insurance to the Soviet Union, and what is the total amount of Federal funds presently committed to energy research and development in the United States?

As you indicate, the President made a determination concerning extension of Eximbank credits to the Soviet Union on October 18, 1972. The full text of this determination, as published at 37 F.R. 22573 (October 20, 1972), is as follows:

"The White House,
Washington, October 18, 1972.

"I hereby determine that it is in the national interest for the Export-Import Bank of the United States to guarantee, insure, extend credit and participate in the extension of credit in connection with the purchase or lease of any product or service by, for use in, or for sale or lease to the Union of Soviet Socialist Republics, in accordance with Section 2(b)(2) of the Export-Import Bank Act of 1945, as amended.

[signed] Richard Nixon"

This determination was reported to the Congress on the date it was made. See Congressional Record for October 18, 1972, H10409 (Executive Communication No. 2432). Obviously this document evidences a determination that it is in the national interest to extend credits to the Soviet Union as a general matter, and without reference to any particular transaction or transactions.

Your first question, as to the validity of such a general determination, requires consideration of the legislative history of section 2(b)(2) of the Export-Import Bank Act and prior appropriation act provisions.

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Section 2(b)(2) of the Export-Import Bank Act of 1945, as amended, 12 U.S.C. 635(b)(2), provides, quoting from the United States Code:

"The Bank in the exercise of its functions shall not guarantee, insure, or extend credit, or participate in any extension of credit--

"(A) in connection with the purchase or lease of any product by a Communist country (as defined in section 2370(f) of Title 22), or agency or national thereof, or

"(B) in connection with the purchase or lease of any product by any other foreign country, or agency, or national thereof, if the product to be purchased or leased by such other country, agency, or national is, to the knowledge of the Bank, principally for use in, or sale or lease to, a Communist country (as so defined),

"except that the prohibitions contained in this paragraph shall not apply in the case of any transaction which the President determines would be in the national interest if he reports that determination to the Senate and House of Representatives within thirty days after making the same."

The above-quoted provision was added by section 1(c) of the act approved March 13, 1968, Pub. L. 90-267, 82 Stat. 47, 48. The 1968 act was in this regard based upon a somewhat similar limitation which had been carried in appropriation acts for prior years.

The appropriation act limitation first appeared in the Foreign Aid and Related Agencies Appropriation Act, 1964, approved January 6, 1964, Pub. L. 88-258, 77 Stat. 857, 863, as follows:

"None of the funds made available because of the provisions of this Title shall be used by the Export-Import Bank to either guarantee the payment of any obligation hereafter incurred by any Communist country (as defined in section 620(f) of the Foreign Assistance Act of 1961, as amended) or any agency or national thereof, or in any other way to participate in the extension of credit to any such country, agency, or national, in connection with the purchase of any product by such country, agency, or national, except when the President determines that such guarantees

> would be in the national interest and reports each such determination to the House of Representatives and the Senate within 30 days after such determination."

The same language was included in the appropriation acts for 1965 (78 Stat. 1022), 1966 (79 Stat. 1008), 1967 (80 Stat. 1024-25), and 1968 (81 Stat. 943).

The appropriation act limitation, as originally enacted in 1964, represented a compromise between proponents of a flat prohibition against Eximbank participation in any transactions involving Communist countries, led by Senator Mundt and Representative Findley, and those members who insisted upon according discretion to the President. However, the legislative history indicates that this language was intended to require a specific Presidential determination for each transaction to be exempted from the prohibition. Thus Senator Mundt commented as follows in a statement appearing at 109 Cong. Rec. 25619:

> "* * * The compromise language which we finally developed in the conference report and which has been adopted by the House is a significant and important policy recommendation by Congress and a firm expressional intent. It contains the same specific prohibition against extension and guarantees of credit to the Communist nations contained in S. 2310 but it provides an escape clause to be used by the President of the United States only--and I repeat only--when he himself finds in the case of each proposed credit transaction that he believes it to be in the national interest * * *.
>
> * * * * *
>
> "I am confident there are many in Congress and throughout the country--and I include myself among them--who will want to scrutinize each such transaction most intently and carefully if it should actually eventuate and be authorized. * * *
>
> "Thus, I am well satisfied with the policy declaration and the specific prohibition in this matter contained in the conference report and by the work accomplished by the House-Senate conference committee in writing into this foreign aid appropriations bill a prohibition which can be voided only by specific Presidential action to be publicly reported in each case within 30 days to both Houses of Congress."

The same intent seems to be manifested during House consideration of the conference report. Mr. Passman observed:

> "* * * The so-called Mundt amendment which was agreed to by the conferees requires two things specifically: The President must determine that financing such assistance by the Export-Import Bank is necessary, and the President must report each such determination * * *.
>
> * * * * *
>
> "* * * If, for example, there are 20 such determinations, the President will report 20 different times * * *." 109 Cong. Rec. 25416-17.

In response to an observation that the President had already in effect determined that sales of wheat and other agricultural products to the Soviet Union were in the national interest, Mr. Rhodes stated:

> "Of course, the gentleman realizes that a new determination has to be made with each transaction under the terms of this amendment?" Id. at 25418.

As noted previously, the present statutory provision was enacted in 1968 by Public Law 90-267. The report on the 1968 legislation by the Senate Committee on Banking and Currency noted the similar provision contained in prior appropriation acts, but pointed out:

> "* * * the committee provision goes beyond the existing provision in two respects. First, as indicated, it would require a determination of national interest by the President in the case of indirect as well as direct transactions with Communist countries. Second, the provision becomes a part of the Bank's statutory charter and does not need to be adopted each year by the Congress as in the case with the appropriation act." S. Rept. No. 493, 90th Cong., 1st sess., 4. (Underscoring supplied.)

The conference report commented with reference to the provision enacted:

> "The Bank is also prohibited from participating in credit transactions in connection with the purchase or lease of any product by a Communist country * * * except after a Presidential determination communicated to Congress within

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30 days after it is made, that the transaction would be in the national interest." H. Rept. No. 1103, 90th Cong. 2d sess., 4. (Underscoring supplied.)

Finally, in explaining the conference version of the 1968 legislation, Senator Muskie reiterated that section 2(b)(2) was patterned after the similar limitation which had been carried in appropriation acts. 114 Cong. Rec. 3836.

Thus the language of section 2(b)(2) of the present act, together with its legislative history, clearly requires a separate determination for each transaction. Your first two questions are therefore answered in the negative.

With reference to your third question, the materials enclosed herewith indicate the present status and extent of Eximbank participation in transactions involving the Soviet Union. Finally, a report to the President dated December 1, 1973, from the Chairman of the Atomic Energy Commission indicated the following obligations for Federal energy research and development for fiscal years 1973 and 1974:

Program Element	Actual 1973 ($ Millions)	Planned 1974
Conserve Energy	$ 52.8	$ 62.3
Increase domestic production of oil and gas	20.0	19.5
Substitute coal for oil and gas	88.8	167.2
Validate nuclear option	395.8	517.3
Exploit renewable energy sources	82.8	123.0
TOTAL	$640.2	$889.3

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We have not audited or verified the above data. The President's fiscal year 1975 budget contains $1.5 billion for direct energy research and development.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

EXHIBIT C

Office of the Attorney General
Washington, D.C.

March 21, 1974

The President,

The White House.

Dear Mr. President:

I have a letter of March 19, 1974, from Counsel to the President requesting, on your behalf, my opinion regarding a matter arising under the Export-Import Bank Act of 1945, 12 U.S.C. 635 ("the Act").

The Export-Import Bank ("the Bank") is an agency of the United States. It is authorized to do a general banking business in order to aid in financing and facilitating exports and imports between the United States and foreign countries. 12 U.S.C. 635(a). Enclosed with your request are opinions of the General Counsel of the Bank and of the Comptroller General. The two opinions reflect a disagreement concerning the meaning of section 2(b)(2) of the Act, 12 U.S.C. 635(b)(2). I understand that as a result of the Comptroller General's opinion various transactions have been suspended involving agreements made with foreign countries. Because of the

significant role that the Bank plays in this country's trade dealings with the U.S.S.R. and certain eastern European countries and because of the importance that this Nation attaches to honoring its international commitments (cf. 42 Op. A.G. No. 28, p. 5), it is appropriate that I should undertake to resolve this conflict.

In general, the provision in question states that the Bank shall not guarantee, insure, or extend credit in connection with the purchase or lease of a product from a Communist country or for use in or sale to a Communist country. 12 U.S.C. 635(b)(2). At issue is the meaning of an exception to this prohibition. The exception, which appears at the end of section 2(b)(2), states that prohibition "shall not apply in the case of any transaction which the President determines would be in the national interest if he reports that determination to the Senate and House of Representatives within thirty days after making the same." The function of this provision is to keep the Congress appraised of transactions within the exception.

The Comptroller General takes the position that this

provision requires a determination from the President for each separate transaction that the Bank engages in that involves trade with a Communist country as described in section 2(b)(2). His opinion was not addressed to the Bank nor did it make any demand of the Bank. However, a member of the Senate requested the opinion and sent it to the Bank, in his individual capacity, together with a request that it be followed. Thus, it is not clear to us what authority should be accorded this opinion. I find it unnecessary, however, to reach the question of the Comptroller General's authority in this matter. The General Counsel of the Bank has demonstrated that the Bank has acted lawfully in following a practice of securing determinations by the President on a country by country basis under section 2(b)(2) of the Act, and in notifying the Congress both of these determinations and their application to particular transactions. For the reasons set forth below I concur with his conclusion.

What is now section 2(b)(2) of the Act had its origin in a series of riders to appropriations acts beginning in

1964. The original provision 1/ prohibited the use of funds available to the Bank to guarantee any obligation incurred by a Communist country or to participate in any way in the extension of credit to a Communist country unless the President determined that the guarantee would be in the national interest. The main thrust of the Comptroller General's opinion is that a statement by Senator Mundt 2/ and a brief remark in the House debate 3/ on the 1964 rider determine the meaning of section 2(b)(2), added to the Act four years later in 1968.

1/ "None of the funds made available because of the provisions of this Title shall be used by the Export-Import Bank to either guarantee the payment of any obligation hereafter incurred by any Communist country (as defined in section 620(f) of the Foreign Assistance Act of 1961, as amended) or any agency or national thereof, or in any other way to participate in the extension of credit to any such country, agency, or national, in connection with the purchase of any product by such country, agency, or national, except when the President determines that such guarantees would be in the national interest and reports each such determination to the House of Representatives and the Senate within 30 days after such determination." Foreign Aid and Related Agencies Appropriation Act, 1964, approved January 6, 1964, 77 Stat. 857, 863.

2/ "The compromise language which we finally developed in the conference report and which has been adopted by the House is a significant and important policy (continued)

3/ "Of course, the gentleman realizes that a new (continued)

I cannot accept this premise. Reliance on congressional debates is, of course, justified where it shows common agreement as to the purpose of legislation. E.g., United States v. City and County of San Francisco, 310 U.S. 16, 22 (1940), and cases collected therein. Here, however, there is no basis for concluding that any such common agreement existed concerning the meaning of section 2(b)(2).

The record shows (109 Cong. Rec. 25618) that Sen. Mundt was not present at the time of the debate on this bill and

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2/ (continued)
recommendation by Congress and a firm expression of congressional intent. It contains the same specific prohibition against extension and guarantees of credit to the Communist nations contained in S. 2310 but it provides an escape clause to be used by the President of the United States only--and I repeat only--when he himself finds in the case of each proposed credit transaction that he believes it to be in the national interest * * *.

* * *

I am confident there are many in Congress and throughout the country--and I include myself among them--who will want to scrutinize each such transaction most intently and carefully if it should actually eventuate and be authorized." 109 Cong. Rec. 25618.

3/ (continued)
determination has to be made with each transaction under the terms of this amendment?" Id. at 25418 (Rep. Rhodes). A comment of Representative Passman is also cited, 109 Cong. Rec. 25417. However, it is not as specific.

that his statement was inserted in the record by Sen. Hruska and never actually delivered on the Senate floor. Although there was nothing wrong in doing this, the value of the statement as indicating common intent is certainly very small. This practice, of course, reduced or eliminated the possibility that Senators who held other views would reply to Senator Mundt or debate the point. 4/ The actual Senate debate reveals only that if there was any agreed or common purpose it was that the President be given broad discretion to make determinations as to "when in the national interest it would be proper to extend credit." E.g., 109 Cong. Rec. 25626 (Sens. Pastore and Holland).

In the House there was also a general realization that the provision conferred broad responsibility and flexibility on the President to set policy. 5/ E.g., 109 Cong. Rec.

4/ The statement was not inserted in the record at the place where debate on this particular provision appears in the record. The Senate debate on trade with Communist countries is at 109 Cong. Rec. 25625-28.

5/ E.g., 109 Cong. Rec. 25419 (Rep. Mahon): "The question is whether in the beginning of the period of service of the new President we will give him the flexibility which he has requested in the handling of foreign affairs. I for one, here in the beginning of his administration, am (continued)

25409, 25417, 25419, 25421. The Comptroller General relies mainly on one brief sentence by Representative Rhodes for the conclusion that the President must approve each transaction. See note 3, supra. I do not find this persuasive.

There are other factors that appear to me to be more significant in interpreting Section 2(b)(2). Since the enactment of the 1964 Appropriation Act, and continuing to date, the President has followed a consistent practice of making determinations on a country by country basis rather than on a transaction by transaction basis. This practice is, of course, consistent with the notion that the President is responsible for determining the broad outlines of foreign policy but not for executing its individual details. See L. Henkin. Foreign Affairs and the Constitution 39 (Foundation Press, 1972). According to the Bank, all such determinations were reported to Congress. Equally important,

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5/ (cont'd) willing to give him this flexibility. He is able, informed, and experienced and he is going to be answerable to the American people. The correctness of his decision on these matters can be decided at a later date even perhaps at the ballot box. We ought not to deny the President the flexibility which he has requested in an area where he has a special constitutional responsibility."

Congress was promptly notified by the Bank of each separate transaction entered into pursuant to these determinations, so that the notice function of section 2(b)(2) was fully preserved. No objections were raised concerning any determination or individual transaction. Congress re-enacted the identical provisions each time it passed the Bank's appropriation for several years thereafter. Foreign Assistance and Related Agencies Appropriation Act, 78 Stat. 1022 (1964), 79 Stat. 1008 (1965), 80 Stat. 1024-25 (1966) and 91 Stat. 943 (1968).

Subsequently, in 1967, legislation was introduced by Senator Tower to place essentially the same requirement which had been written into the appropriation acts directly into the Bank's charter. His proposal eventually became section 2(b)(2). 113 Cong. Rec. 12418-19 (1967). There is no indication that Congress was motivated to change the existing administrative practice. The legislative history of the provision is somewhat ambiguous. Export-Import Bank Act Amendments of 1967, Hearings before the Subcommittee on International Finance of the Senate Banking and Currency Committee on S. 1155, 90th Cong., 1st Sess., p. 21, 44, 49

(1967). Moreover, the language of Section 2(b)(2) permits more than one possible interpretation on the issue raised by the Comptroller General. The practice of making determinations on a country by country basis continued, a fact of which Congress was aware. 6/ To date, this is the uniform procedure that has been followed.

Given the fact that Section 2(b)(2) is unclear, I believe that we can accord great weight to the administrative practice, particularly where, as here, it represents the "contemporaneous construction of a statute by the men charged with the responsibility of setting its machinery in motion * * *." Norwegian Nitrogen Co. v. United States, 288 U.S. 298, 315 (1933). Moreover, as noted, during a

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6/ E.g., H. Rep. No. 92-303, p. 10 (1971); Foreign Assistance and Related Agencies Appropriations for 1969, Hearings before the Subcommittee on Foreign Operations of the House Appropriations Committee, 90th Cong., 2d Sess., Part 1, p. 201:

Mr. Passman. Without any further Presidential determination, you can negotiate loans for other commodities; can you not?

Mr. Linder. With that particular country; yes.

DURATION OF PRESIDENTIAL DETERMINATION

Mr. Passman. Once the Presidential determination is made, that is almost the equivalent of a statute; isn't it?

Mr. Linder. It is within the statute.

ten-year period, Congress has enacted and re-enacted this provision in various forms without taking exception to the practice. The Supreme Court has held, under similar circumstances, that Congress can be considered to have approved the practice. Douglas v. Commissioner, 322 U.S. 275, 281 (1944); Boehm v. Commissioner, 326 U.S. 287, 291-92 (1945); Helvering v. Winmill, 305 U.S. 79, 83 (1938). I believe that the Court's reasoning applies here. Such an interpretation is consistent, of course, with the broad purpose of section 2(b)(2)--to engage the President in important and difficult policy questions involving trade with Communist countries. These are questions of particular significance at this time.

I thus conclude that the President and the Bank acted lawfully in making and following determinations on a country to country basis pursuant to Section 2(b)(2), and in notifying the Congress of each determination and transaction.

Respectfully,

Wm B Saxbe

Attorney General

EXHIBIT D

"JOHNSON DEBT DEFAULT ACT"

(PUBLIC LAW 772, 80TH CONG. (62 STAT. 744), JUNE 25, 1948)

(18 U.S.C. 955.)

Whoever, within the United States, purchases or sells the bonds, securities, or other obligations of any foreign government or political subdivision thereof or any organization or association acting for or on behalf of a foreign government or political subdivision thereof, issued after April 13, 1934, or makes any loan to such foreign government, political subdivision, organization or association, except a renewal or adjustment of existing indebtedness, while such government, political subdivision, organization or association, is in default in the payment of its obligations, or any part thereof, to the United States, shall be fined not more than $10,000 or imprisoned for not more than five years, or both.

This section is applicable to individuals, partnerships, corporations, or associations other than public corporations, created by or pursuant to special authorizations of Congress, or corporations in which the United States has or exercises a controlling interest through stock ownership or otherwise. While any foreign government is a member both of the International Monetary Fund and of the International Bank for Reconstruction and Development, this section shall not apply to the sale or purchase of bonds, securities, or other obligations of such government or any political subdivision thereof, or of any organization or association acting for or on behalf of such government or political subdivision, or to making of any loan to such government, political subdivision, organization, or association.[1]

As of ~~3-26-74~~ 4-16-74

EXHIBIT E - Part 1

EXPORT-IMPORT BANK OF THE UNITED STATES

APPROVED CREDITS - USSR

BUYER	ITEM	U.S. CONTRACT ($000) VALUE	EXIM LOAN	APPROVED
1. Mashinoimport	Submersible Electric Pumps	$ 25,937	$ 11,672	2-21-73
2. Stankoimport Techmashimport	Plant to Produce Tableware and Dishware	6,893	3,102	3-5-73
3. Avtopromimport Metallurgimport Stankoimport	Kama River Truck Plant	342,120	153,950	3-5-73 *
4. Technopromimport	250 Circular Knitting Machines	5,620	2,529	9-6-73
5. Stankoimport	Second Tableware	21,833	9,825	11-26-73
6. Stankoimport	2 Assembly Lines for Mfg. Pistons	12,902	5,806	11-26-73
7. Mashinoimport	38 Gas Reinjection Compressors	26,252	11,813	12-20-73
8. Mettalurgimport	Iron Ore Pellet Plant	36,000	16,200	12-20-73
9. Stankoimport	Machining Friction Drums	5,580	2,511	12-20-73
10. Stankoimport	Transfer Line for Mfg. Pistons	15,722	7,075	12-20-73
11. Techmashimport	Acetic Acid Plant	44,515	20,032	2-21-74
12. Ufa Motor Works	Transfer Line for Machine Flywheels	7,458	3,356	2-28-74

* Credit Increased

As of ~~3-26-74~~ 4-16-74

APPROVED CREDITS cont'd

BUYER	ITEM	U.S. CONTRACT VALUE ($000)	EXIM LOAN	APPROVED
13. Traktoroexport	Canal Building Equipment	$ 6,600	$ 2,970	3-22-74
14. Stankoimport	Valve Making Machinery	4,700	2,115	3-22-74
15. USSR Chamber of Commerce and Industry & Moscow City Council	International Trade Center	80,000	36,000	3-22-74
	TOTALS	$642,132	$288,956	

In addition to the above are the following guarantees in the form of preshipment covers to U.S. exporters:

No.	Amount
10	118,932

EXHIBIT E - Part 2

EXPORT-IMPORT BANK OF THE UNITED STATES
Summary of East-West Trade (for Poland, Romania, USSR, Yugoslavia)
Inception to February 28, 1974
(Dollars in thousands)

	Export Value	Authorizations: Total Amount	Total No.	Active Amount	Active No.	Terminated Amount	Terminated No.
POLAND							
Regular Loans	210,397	147,587	27	94,680	19	52,907	8
CFF and Relending Loans	450	203	1	203	1	-	-
Financial Guarantees - Participation Financing	-	8,910	1	8,910	1	-	-
- Other	-	4,150	1	-	-	4,150	1
Regular Guarantees - Commercial Bank	600	550	2	486	1	64	1
- Preshipment or Consignment	-	-	-	-	-	-	-
Medium Term Insurance	-	-	-	-	-	-	-
Short Term Insurance (Shipments)	47	47		47	-	-	-
Sub-total	211,494						
Export Value of Terminated Authorizations	58,380						
Total Poland Inception thru 2-28-74	269,874	161,447	32	104,326	22	57,121	10
ROMANIA							
Regular Loans	97,875	43,447	10	43,397	9	50	1
CFF and Relending Loans	872	386	2	386	2	-	-
Financial Guarantees - Participation Financing	-	17,953	6	17,953	6	-	-
- Other		20,000	1	-	-	20,000	1
Regular Guarantees - Commercial Bank	26,831	20,200	20	19,558	18	642	2
- Preshipment or Consignment	-	-	-	-	-	-	-
Medium Term Insurance	3,443	2,218	8	1,682	5	536	3
Short Term Insurance (Shipments)	3,355	3,355	-	3,355	-	-	-
Sub-total	132,376						
Export Value of Terminated Authorizations	25,323						
Total Romania Inception thru 2-28-74	157,699	107,559	47	86,331	40	21,228	7

	Export Value	Authorizations Total Amount	Total No.	Active Amount	Active No.	Terminated Amount	Terminated No.
UNION OF SOVIET SOCIALIST REPUBLICS -							
Regular Loans	$642,132	288,956	15	288,956	15	-	-
CFF and Relending Loans	-	-	-	-	-	-	-
Financial Guarantees - Participation Financing	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-
Regular Guarantees - Commercial Bank	-	-	-	-	-	-	-
- Preshipment ~~or Consignment~~ cover to U.S. exporters	-	118,932	10	118,932	10	-	-
Medium Term Insurance	-	-	-	-	-	-	-
Short Term Insurance (Shipments)	-	-	-	-	-	-	-
Sub-total	$642,132						
Export Value of Terminated Authorizations	-						
Total U.S.S.R. Inception thru 2-28-74**	$642,132	407,888	25	407,888	25	-	-
**Amended to reflect data through April 16, 1974.							
YUGOSLAVIA							
Regular Loans	537,910	344,093	43	288,575	40	55,518	3
CFF and Relending Loans	27,178	13,267	20	12,228	16	1,039	4
Financial Guarantees - Participation Financing	-	195,727	41	195,566	38	161	3
- Other	11,373	69,025	19	37,247	13	31,778	6
Regular Guarantees - Commercial Bank	53,492	81,340	180	43,176	100	38,164	80
- Preshipment or Consignment	-	14	1	-	-	14	1
Medium Term Insurance	19,322	34,444	71	15,142	38	19,302	33
Short Term Insurance (Shipments)	13,139	13,139	-	13,139	-	-	-
Sub-total	662,414						
Export Value of Terminated Authorizations	152,425						
Total Yugoslavia Inception thru 2-28-74	814,839	751,049	375	605,073	245	145,976	130
Grand Totals	1,793,244	1,380,465	475	1,156,140	328	224,325	147

As of 2/28/74

EXHIBIT E - Part 3

Export-Import Bank of the United States
East-West Trade
Details of Regular Loans
(In Thousands of Dollars)

ROMANIA

Credit No. Date Auth.	Obligor	Item Financed	Supplier Participating Bank	Export Value	Cash Payment	Financed Portion Supplier	Financed Portion Other	Financed Portion Eximbank	Repayment Terms Supplier	Repayment Terms Other	Repayment Terms Eximbank	Disb. by Eximbank	Outstanding Balance
3999 6-21-72	Impexmin State Co.	Equip. for offshore drilling	Offshore Company Manufacturers Trust	3,178	476	318	1,192(G)	1,192	5 SA Beg. 8-10-75	5 SA Beg. 8-10-75	5 SA Beg. 2-10-78	-	-
4152 9-28-72	Tehnoimporterexport	Seismic processing system	Control Data Corp. First Nat'l Bank, N.Y.	1,150	173	115	431(G)	431	5 SA Beg. 8- 5-73	5 SA Beg. 8- 5-73	5 SA Beg. 2- 5-76	-	-
4484 4- 2-73	Do	Aircraft, coml. jet (3) 707's	Boeing Company Morgan Guaranty Trust	44,486	4,449	-	20,018	20,019	-	10 SA Beg. 12- 5-74	10 SA Beg. 12- 5-79	4,319	4,319
4503 4-23-73	Romchim	Plant to produce tires	General Tire Int'l Co. Manufacturers Trust	28,795	2,880	-	12,957(G)	12,958	-	10 SA Beg. 8-10-76	10 SA Beg. 8-10-81	-	-
4507 4-30-73	Do	Rubber drying & packaging line	Anderson Ibec Morgan Trust Co.	1,830	184	-	823(G)	823	-	5 SA Beg. 8- 5-76	5 SA Beg. 8- 5-78	-	-
4537 5-17-73	Romenergo	Constr. nuclear technical centr	Gulf Energy & Environmental System First Nat'l Bank, N.Y.	4,635	695	412	1,764(G)	1,764	8 SA Beg. 7-31-76	8 SA Beg. 7-31-76	6 SA Beg. 7-31-80	-	-
4781 8-27-73	Romchim	Compressors & turbines	Delaval Turbine, Inc. Morgan Guaranty Trust	10,420	1,042	-	4,689	4,689	-	7 SA Beg. 3-15-76	7 SA Beg. 9-15-79	-	-
4883 11- 1-73	Metaron	Vaccum furnance & spare parts	Alco Standard Corp. Continental Ill. Nat'l Bk.	1,635	164	-	735	736	-	5 SA Beg. 2-10-76	5 SA Beg. 8-10-78	-	-
4958 11-28-73	Uzinexportimport	Equip. for bushing line	BAB Industries Detroit Bank & Trust	1,746	176	-	785(G)	785	-	5 SA Beg. 4-15-76	5 SA Beg. 10-15-78	-	-
		Total Regular Loans		97,875	10,239	845	43,394	43,397				4,319	4,319

As of 2/28/74

Export-Import Bank of the United States
East-West Trade
Details of Regular Loans
(In Thousands of Dollars)

POLAND

Credit No. Date Auth.	Obligor	Item Financed	Supplier Participating Bank	Export Value	Cash Payment	Financed Portion: Supplier	Financed Portion: Other	Financed Portion: Eximbank	Repayment Terms: Supplier	Repayment Terms: Other	Repayment Terms: Eximbank	Disb. by Eximbank	Outstanding Balance
4372 2- 1-73	Bk. Handlowy W. Warszawie, S.A.	(2) Meat processing plants	Allan Scott Co. First Nat'l Bk. of Chicago	19,800	1,980	-	8,910(G)	8,910	-	10 SA Beg. 8-10-75	10 SA Beg. 8-10-80	2,358	2,358
4405 3-12-73	Do	Rolling mill	Textron Co. Chase Manhattan	4,420	442	-	1,989	1,989	-	8 SA Beg. 5-10-79	9 SA Beg. 5-10-79	-	-
4445 3-15-73	Do	Cyber 72-14 computer system	Control Data Corporation Security Pacific Nat'l	2,433	243	-	1,095	1,095	-	5 SA Beg. 10- 5-73	5 SA Beg. 4- 5-76	894	894
4497 4-18-73	Do	High temperature furnaces	Ispen Div. Alco Standard Continental Ill. Nat'l	5,800	580	-	2,610	2,610	-	8 SA Beg. 2-10-76	9 SA Beg. 2-10-80	-	-
4548 5-21-73	Do	Tractor componets	International Harvester Morgan Guaranty Trust	1,548	154	-	697	697	-	5 SA Beg. 8- 5-74	5 SA Beg. 2- 5-77	287	287
4657 6-27-73	Do	(2) Meat processing plants	A. Epstein Co. Morgan Guaranty Trust	49,600	4,960	-	22,320	22,320	-	10 SA Beg. 2-10-76	10 SA Beg. 2-10-81	-	-
4671 7-16-73	Do	Tape drive equipment	Information Magnetics United California Bk.	1,261	127	-	567	567	-	5 SA Beg. 11-30-73	5 SA Beg. 11-30-76	-	-
4677 7-16-73	Do	Gray iron foundry	Swindle-Dressler Morgan-Marine-Girard	30,000	3,000	-	13,500	13,500	-	10 SA Beg. 2-15-76	10 SA Beg. 2-15-81	-	-
4771 8-22-73	Do	Weaving looms	Rockwell International Security Pacific Nat'l	5,957	595	-	2,681	2,681	-	7 SA Beg. 11- 5-74	7 SA Beg. 5- 5-78	-	-
4821 9-27-73	Do	Computer equipment	California Computer Prod. Undetermined	1,539	153	-	693	693	-	5 SA Beg. 6-15-74	5 SA Beg. 12-15-76	-	-
4831 10-23-73	Do	Pectin production line	FMC Corporation Wells Fargo	2,338	234	-	1,052	1,052	-	7 SA Beg. 8-20-75	7 SA Beg. 2-20-79	-	-
4888 11- 1-73	Do	Electronic equipment	Westinghouse Chemical Bank	9,730	972	-	4,379	4,379	-	8 SA Beg. 1-10-76	8 SA Beg. 7-10-80	-	-
4897 11- 5-73	Do	Meat processing plant	A. Epstein Co. Bankers Trust Co.	23,413	2,341	-	10,536	10,536	-	10 SA Beg. 1-10-76	10 SA Beg. 7-10-81	-	-
4903 11- 1-73	Do	Disc wheel machinery	Verson Allsteel Press Co. Irving Trust Co.	1,839	185	-	827	827	-	5 SA Beg. 5- 5-75	5 SA Beg. 11- 5-77	-	-
5031 12-20-73	Do	Computer terminals	Singer Business Mach. Co. Morgan Guaranty Trust	1,082	108	-	487	487	-	5 SA Beg. 9- [illegible]	5 SA Beg. 3- 1-77	-	-
5003 12-27-73	Do	Computer equipment	Control Data Corporation Security Pacific Nat'l	3,020	302	-	1,359	1,359	-	3 scheds. of 5 SA Beg. 10-10-74	3 scheds. of 5 SA Beg. 4-10-77	-	-
5138 2- 4-74	Do	(2) Complete mechanical drying lines	Anderson IBEC Undetermined	1,133	113	-	510	510	-	5 SA Beg. 3- 5-75	5 SA Beg. 9- 5-77	-	-
5176 2-21-74	Do	Copper & brass processing facilities	Waterbury Farrel Chase Manhattan Bank	43,759	4,375	-	19,692	19,692	-	10 SA Beg. 2-20-77	10 SA Beg. 2-20-80	-	-
5137 2-25-74	Do	Construction of a tire plant	Jonestone Engineering Manufacturers Hanover	1,725	173	-	776	776	-	5 SA Beg. 7-15-76	5 SA Beg. 1-15-79	-	-
		Total Regular Loans		210,397	21,037	-0-	94,680	94,680				3,539	3,539

As of 2/28/74

Export-Import Bank of the United States
East-West Trade
Details of Regular Loans
(In Thousands of Dollars)

YUGOSLAVIA

Credit No. Date Auth.	Obligor	Item Financed	Supplier Participating Bank	Export Value	Cash Payment	Financed Portion: Supplier	Financed Portion: Other	Financed Portion: Eximbank	Repayment Terms: Supplier	Repayment Terms: Other	Repayment Terms: Eximbank	Disb. by Eximbank	Outstanding Balance
1461 2-16-61	Gov. of Yugoslavia	Multiproject assistance	Kaiser Eng. Dow Chem. et. al	50,000	-	-	-	50,000	-	-	24 SA Beg. 10- 1-64	49,714	11,659
2181 6-25-64	Yugoslav Investment Bk.	Aluminum rolling mill equipment	Blaw Knox Chase Manhattan Bank	3,811	-	-	1,905	1,906	-	11 SA Beg. 12-24-66	7 SA Beg. 6-24-72	1,906	817
2293 1-20-66	Gov. of Yugoslavia	Railroad locomotives	General Motors Overseas Dist.	9,306	-	-	-	9,306	-	-	18 SA Beg. 7-31-67	9,306	2,581
2294 1-27-66	Do	Fertilizer plant	Allis Chalmers, et. al.	24,750	-	-	-	24,750	-	-	14 SA Beg. 10-31-69	24,750	8,839
E-2637 5-29-69	Jugoslovenski Aero-transport "JAT"	Aircraft, coml. jet (5) DC-9's	McDonnell-Douglas Citibank	26,870	2,687	3,526	9,069	11,588	3 SA Beg. 1- 1-74	6 SA Beg. 1- 1-71	8 SA Beg. 1- 1-75	11,588	11,588
E-2638 5-29-69	Interexport (Inexadria A/L)	Aircraft, coml. jet (2) DC-9's	Do	10,300	1,030	1,352	3,476	4,442	3 SA Beg. 2-28-73	6 SA Beg. 2-28-70	8 SA Beg. 2-28-74	4,051	2,148
2701 12-24-69	Zeljeznicko Transpor Preduzece	Railroad locomotives	General Motors Overseas Dist.	4,151	416	-	-	3,735	-	-	21 SA Beg. 1-15-82	-	-
2964 10-29-70	Jugoslovenski Aero-transport "JAT"	Aircraft, coml. jet (3) DC-9's	McDonnell Douglas, et. al. Chase Manhattan Bank	15,400	1,540	693	6,930(G)	6,237	8 SA Beg. 10- 1-75	8 SA Beg. 10- 1-71	8 SA Beg. 10- 1-75	6,237	4,435
2966 10-29-70	Interexport	Aircraft, coml. jet (1) DC-9	Do	5,252	526	236	2,363(G)	2,127	8 SA Beg. 11-15-71	8 SA Beg. 11-15-71	8 SA Beg. 11-15-75	2,127	2,127
3078 2-22-71	Ina Industrija Nafte	Oil field equipment	Conti-Emsco Company Continental Bk., Int'l	8,348	835	-	3,756(G)	3,757	-	5 SA Beg. 11-15-72	5 SA Beg. 11-15-75	3,452	3,452
3197 6- 7-71	Interexport	(1) Used DC-9-32 jet aircraft	Purdue Airlines, Inc. First National City Bank	4,400	440	198	1,980(G)	1,782	7 SA Beg. 5-15-72	7 SA Beg. 5-15-72	6 SA Beg. 11-15-75	1,664	1,664
3209 6-17-71	Hemijska Industria Pancevo	Petrochemical facilities equipment	Various First National City Bank	47,900	4,790	-	21,555(G)	21,555	-	10 SA Beg. 11-15-75	10 SA Beg. 11-15-80	5,996	5,996
3246 6-28-71	Iskra Elektromehanika Kranj	Telecommunications equipment	Do Chemical Bank	4,500	450	-	2,025(G)	2,025	-	7 SA Beg. 9-15-74	7 SA Beg. 3-15-78	2,025	2,025
3270 6-29-71	Enamels Metal & Press Tool Ind.	Equipment to produce containers	Inexamer Commercial Corp. Chase Manhattan Bank	980	98	-	441(G)	441	-	10 SA Beg. 11-15-72	10 SA Beg. 1- 1-74	410	395
E-3291 7-14-71	Geoloski Zavod	Uranium mining study	Arthur G. McKee & Co. Chase Manhattan Bank	185	18	9	79(G)	79	2 SA Beg. 8-15-72	4 SA Beg. 8-15-72	4 SA Beg. 8-15-72	79	70
E-3342 8-23-71	Vardar Import Export of Skopje	Study for copper mine	Western Knapp Engr. Div. Chase Manhattan Bank	187	19	8	80(G)	80	2 SA Beg. 8-15-72	4 SA Beg. 8-15-72	4 SA Beg. 8-15-72	80	20
3391 10- 5-71	Zeljeznicko Transportno	(14) electric locomotives	General Motors Overseas Corp. Morgan Guaranty Trust Co.	5,020	501	-	2,259(G)	2,260	-	10 SA Beg. 9-30-73	10 SA Beg. 9-30-78	2,191	2,191
3602 1-17-72	Interexport	Aircraft, coml. jet (1) DC 9	McDonnell Douglas Security Pacific Nat'l Bk.	5,250	525	-	2,362(G)	2,363	-	10 SA Beg. 8-15-73	10 SA Beg. 8-15-78	2,155	2,155
3702 2- 3-72	Metal Kombinat Smederevo	Construct rolling mill	Westinghouse Electric Pittsburgh National Bank	36,000	3,600	-	16,200(G)	16,200	-	8 SA Beg. 2-15-76	8 SA Beg. 2-15-80	9,532	9,532
E-3804 4-13-72	RMK Zenica	Feas. study integ. steel plant	Koppers Co. Inc. None	255	25	12	-	218	2 SA Beg. 2-15-73	-	2 SA Beg. 2-15-74	192	[illegible]

As of 2/28/74

Export-Import Bank of the United States
East-West Trade
Details of Regular Loans
(In Thousands of Dollars)

YUGOSLAVIA - continued

Credit No. Date Auth.	Obligor	Item Financed	Supplier Participating Bank	Export Value	Cash Payment	Financed Portion Supplier	Financed Portion Other	Financed Portion Eximbank	Repayment Terms Supplier	Repayment Terms Other	Repayment Terms Eximbank	Disb. by Eximbank	Outstanding Balance
3963 6- 8-72	Cajavec Elektronika Elektro	Electronics equipment	D.S. Electro-Optical, Inc. United California Bank	10,000	1,000	-	4,500(G)	4,500	-	7 SA Beg. 2-15-74	7 SA Beg. 8-15-77	71	71
3971 6-19-72	Jugoslovenski Aero-transport	Aircraft, jumbo jet (6) DC 10's	McDonnell Douglas Finance First Nat'l City Bank	32,775	3,278	-	14,748(G)	14,749	-	10 SA Beg. 5-15-73	10 SA Beg. 11-15-78	13,969	13,969
4039 7-27-72	Rudarsko Topionicarski Basen	Equipment for copper mine	Various Girard Trust Bank	25,000	2,500	-	11,250(G)	11,250	-	10 SA Beg. 2-15-74	10 SA Beg. 2-15-79	3,860	3,860
4068 7-31-72	Sluzba Drustvenog Knjigovodstv	(73) Computer systems	Burroughs Inter. Morgan Guaranty Trust	2,465	371	-	1,047(G)	1,047	-	5 SA Beg. 5- 5-74	5 SA Beg. 11- 5-76	-	-
4084 8-31-72	Rudarsko Metalurski Kombinat	(2) Strand rod mills	Various Western Pa. Nat'l Bk.	31,800	3,200	-	14,300(G)	14,300	-	12 SA Beg. 2-15-76	12 SA Beg. 2-15-82	6,900	6,900
4173 9-26-72	Rudarsko Metalurske Nemijski	Expand (2) battery	Globe-Union, Inc. Pittsburgh Nat'l Bk.	3,911	391	-	1,760(G)	1,760	-	7 SA Beg. 2- 5-75	7 SA Beg. 8- 5-78	1,100	1,100
4195 10-30-72	Interexport	Aircraft, coml. jet (1) DC-9	McDonnell Douglas Corp. First Nat'l City Bank	5,197	520	-	2,339(G)	2,338	-	10 SA Beg. 12-15-73	10 SA Beg. 12-15-78	2,276	2,276
4397 2-26-73	Various Yugoslav importers	Telecom equip. & fac.	Microwave Int'l Inc, et. al. Bk. of America, NT & SA	13,626	1,362	-	6,132(G)	6,132	-	10 SA Beg. 6-15-76	10 SA Beg. 6-15-81	-	-
4723 8-13-73	Industrisa Nafte Zareb	Oil production equip.	Various Continental Bk., Int'l	3,000	300	-	1,350(G)	1,350	-	5 SA Beg. 5- 5-75	5 SA Beg. 11- 5-77	-	-
4739 10-25-73	Polyester Skopje	Polyester staple & filament	Chemtex Fibers Inc. Continental Bk., Int'l	18,500	1,850	-	8,325(G)	8,325	-	10 SA Beg. 11-10-76	10 SA Beg. 11-10-81	-	-
4770 8-30-73	Energoinvest Sarajevo	Feasibility study	Chas. T. Main, Int'l Inc. Do	56	5	3	-	48	2 SA Beg. 11-15-74	-	4 SA Beg. 11-15-74	-	-
4786 9-13-73	Indus Kombinat Krivaja	Fiberboard plant construction	Miller Hofft Corp. French American Bkg. Corp	5,950	594	-	2,678(G)	2,678	-	8 SA Beg. 3-10-76	8 SA Beg. 3-10-80	-	-
4846 11-15-73	Zeljezara Sisak	Steel mill expansion	Blaw-Knox Western Pa. Nat'l Bk.	3,315	331	-	1,492(G)	1,492	-	7 SA Beg. 4-10-76	7 SA Beg. 10-10-79	-	-
4898 12- 6-73	Zeljezara "Boris Kidric" Kiksic	Expand steelworks	Blaw-Knox First Chicago Int'l	34,000	3,400	-	15,300(G)	15,300	-	10 SA Beg. 7-10-77	10 SA Beg. 7-10-82	-	-
4910 12-20-73	Zelejarna Jesenice	Rolling mill	Waterbury Farrell, et. al Pittsburgh Nat'l Bk.	24,440	2,440	-	11,000(G)	11,000	-	10 SA Beg. 11- 5-77	10 SA Beg. 11- 5-82	-	-
5087 1-21-74	Jugoslovenski Aerotransport	(2) New Boeing 727-200 jet aircraft	Boeing Company Undetermined	20,450	2,044	-	9,203(G)	9,203	-	10 SA Beg. 12-10-74	10 SA Beg. 12-10-79	-	-
4986 2- 1-74	Titavi-Sudnici Probo-Banovici (Sudnici)	Equipment for coal mining	Caterpillar Undetermined	21,485	2,149	-	9,668(G)	9,668	-	3 scheds. of 7 SA Beg. 1- 5-75	3 scheds. of 7 SA Beg. 7- 5-78	-	-
5161 2-11-74	Jugoslovenski Aerotransport	(2) Used Boeing 707 jet aircraft	Northwest Airlines Undetermined	15,000	1,500	-	6,750(G)	6,750	-	7 SA Beg. 10-10-74	7 SA Beg. 4-10-78	-	-

Export-Import Bank of the United States
East-West Trade
Details of Regular Loans
(In Thousands of Dollars)

YUGOSLAVIA - continued

Credit No. Date Auth.	Obligor	Item Financed	Supplier Participating Bank	Export Value	Cash Payment	Financed Portion: Supplier	Financed Portion: Other	Financed Portion: Eximbank	Repayment Terms: Supplier	Repayment Terms: Other	Repayment Terms: Eximbank	Disb. by Eximbank	Outstanding Balance
5126 2-14-74	Automobilska Produzeca	(70) Mack road tractors	Mack trucks Fidelity Int'l Bank	1,897	189	-	854 (G)	854	-	5 SA Beg. 10- 5-74	5 SA Beg. 4- 5-77	-	-
5128 2-14-74	Autotransportna i Spediterska Produzece "Autoprevoz"	(80) Mack F 785 St. road tractors	Mack trucks Undetermined	2,178	218	-	980 (G)	980	-	5 SA Beg. 3- 5-75	5 SA Beg. 9- 5-77	-	-
Total Regular Loans				537,910	45,142	6,037	198,156	288,575				165,591	99,921

As of 2/28/74

Export-Import Bank of the United States
East-West Trade
Details of Regular Loans
(In Thousands of Dollars)

UNION OF SOVIET SOCIALIST REPUBLICS

Credit No. Date Auth.	Obligor	Item Financed	Supplier Participating Bank	Export Value	Cash Payment	Financed Portion: Supplier	Financed Portion: Other	Financed Portion: Eximbank	Repayment Terms: Supplier	Repayment Terms: Other	Repayment Terms: Eximbank	Disb. by Eximbank	Outstanding Balance
4399 2-21-73	Vneshtorgbank	500 Submersible electric pumps	TRW, Inc. French American Bkg. N. Y.	25,937	2,593	-	11,672	11,672	-	7 SA Beg. 8- 5-74	7 SA Beg. 2- 5-78	8,482	8,482
4421 3- 5-73	Do	(2) Tableware plants	Alliance Tool & Dye Corp. Wells Fargo Bank	6,893	689	-	3,102	3,102	-	10 SA Beg. 3-10-76	10 SA Beg. 3-10-81	-	-
4423 3- 5-73	Do	Plant to product trucks & engines	Various Chase Manhattan Bank	342,120	34,220	112,539 (-)112,539	1/ 153,950	153,950	-	12 SA Beg. 10-10-77	12 SA Beg. 10-10-83	6,072	6,072
4794 9- 6-73	Do	Knitting machines	Rockwell, Int'l Bankers Trust Co.	5,620	562	-	2,529	2,529	-	7 SA Beg. 2-10-75	7 SA Beg. 8-10-78	-	-
4881 11-26-73	Do	Tableware plant	Alliance Tool & Dye Corp. Bankers Trust Co., N. Y.	21,833	2,183	-	9,825	9,825	-	10 SA Beg. 11-15-75	10 SA Beg. 11-15-80	-	-
4882 11-26-73	Do	Assembly line for pistons	LaSalle Machine Tool, Inc. Bankers Trust Co.	12,902	1,290	-	5,806	5,806	-	8 SA Beg. 11- 5-75	8 SA Beg. 11- 5-79	-	-
4998 12-20-73	Do	38 Turbine compressor units	International Harvester Wells Fargo Bank	26,252	2,626	-	11,813	11,813	-	7 SA Beg. 2- 5-74	7 SA Beg. 8- 5-78	-	-
4982 12-20-73	Do	Iron ore pellet plant	Allis-Chalmers Franklin Nat'l Bank	36,000	3,600	-	16,200	16,200	-	8 SA Beg. 5-20-77	8 SA Beg. 5-20-81	-	-
5007 12-20-73	Do	Machine drums	Jones & Lamson Co. Franklin Nat'l Bank	5,980	598	-	2,511	2,511	-	8 SA Beg. 11- 5-75	8 SA Beg. 11- 5-79	-	-
5008 12-20-73	Do	Assembly line for pistons	LaSalle Machine Tool, Inc. French American Bkg. Corp.	15,722	1,572	-	7,075	7,075	-	8 SA Beg. 5- 5-76	8 SA Beg. 5- 5-80	-	-
5170 2-21-74	Do	Acetic acid plant	Lummus Co. Undetermined	44,515	4,451	-	20,032	20,032	-	10 SA Beg. 2-10-79	10 SA Beg. 2-10-84	-	-
5169 2-28-74	Do	Transferline for machine flywheels	Giddings & Lewis Undetermined	7,458	746	-	3,356	3,356	-	7 SA Beg. 8-20-76	7 SA Beg. 2-20-80	-	-
		Total Regular Loans		550,832	55,090	-0-	247,871	247,871				14,554	14,554

1/ Preshipment coverage only

Mr. ASHLEY. Thank you, Mr. Rousselot.

A number of important policy questions, of course, have been raised by the legislation that you and Mr. Dent and other Members of the House have introduced. I can assure you that these policy questions will indeed be most fully aired before the subcommittee.

Mr. ROUSSELOT. I know the chairman of the subcommittee will assure us that it will not just be a superficial type of thing, that we will look at it very carefully.

Mr. ASHLEY. That is precisely what I mean.

I have gone to some length to give notice to all Members of the House that these hearings were scheduled. I invited testimony from Members with whom I may not be in complete agreement. So I think you can be assured that we take seriously the policy questions.

Mr. ROUSSELOT. Could we ask unanimous consent that the list of all cosponsors of the Ichord-Dent-Aspin resolution be placed in the record at this point with a copy of the resolution?

Mr. ASHLEY. Yes, without objection.

[The list of cosponsors of the Ichord-Dent-Aspin resolution and the text of H. Res. 1059 follows:]

COSPONSORS OF ICHORD-DENT-ASPIN SENSE OF THE HOUSE RESOLUTION TO INSTRUCT EXIMBANK TO MAKE NO FURTHER LOANS TO THE SOVIET UNION UNTIL CONGRESS HAS TAKEN ACTION ON THE MATTER

1. Ichord (D-Mo.)
2. Aspin (D-Wis.)
3. Dent (D-Pa.)
4. Addabbo (D-N.Y.)
5. Alexander (D-Ark.)
6. Anderson (D-Calif.)
7. Annunzio (D-Ill.)
8. Archer (D-Tex.)
9. Ashbrook (R-Ohio)
10. Badillo (D-N.Y.)
11. Bafalis (R-Fla.)
12. Baker (R-Tenn.)
13. Bauman (R-Md.)
14. Bell (R-Calif.)
15. Bennett (D-Fla.)
16. Bevill (D-Ala.)
17. Biaggi (D–N.Y.)
18. Blackburn (R–Ga.)
19. Boggs (D-La.)
20. Boland (D-Mass.)
21. Brasco (D-N.Y.)
22. Breaux (D-La.)
23. Brinkley (D-Ga.)
24. Broomfield (R-Mich.)
25. Broyhill (R-N.C.)
26. Buchanan (R-Ala.)
27. Burgener (R-Calif.)
28. Burke (R-Fla.)
29. Burke (D-Mass.)
30. Burke (D-Calif.)
31. Burleson (D-Tex.)
32. Butler (R-Va.)
33. Byron (D-Md.)
34. Carter (R-Ky.)
35. Casey (D-Tex.)
36. Chappell (D-Fla.)
37. Chisholm (D–N.Y.)
38. Clancy (R-Ohio)
39. Clay (D-Mo.)
40. Cochran (R-Miss.)
41. Collins (D-Ill.)
42. Conlan (R-Ariz.)
43. Conte (R-Mass.)
44. Cotter (D-Conn.)
45. Crane (R-Ill.)
46. Cronin (R-Mass.)
47. Daniel (D-Va.)
48. Daniel (R-Va.)
49. Daniels (D-N.J.)
50. Davis (D-S.C.)
51. Denholm (D-S. Dak.)
52. Derwinski (R-Ill.)
53. Dickinson (R-Ala.)
54. Dingell (D-Mich.)
55. Donohue (D-Mass.)
56. Dorn (D-S.C.)
57. Downing (D-Va.)
58. Dulski (D-N.Y.)
59. Duncan (R-Tenn.)
60. Edwards (D-Calif.)
61. Eilberg (D-Pa.)
62. Evins (D-Tenn.)
63. Fascell (D-Fla.)
64. Fauntroy (D-D.C.)
65. Fisher (D-Tex.)
66. Flood (D-Pa.)
67. Flowers (D-Ala.)
68. Ford (D-Mich.)
69. Fountain (D-N.C.)
70. Frey (R-Fla.)
71. Fulton (D-Tenn.)
72. Fuqua (D-Fla.)
73. Gaydos (D-Pa.)
74. Gettys (D-S.C.)

75. Giaimo (D-Conn.)
76. Gilman (R-N.Y.)
77. Ginn (D-Ga.)
78. Goldwater (R-Calif.)
79. Goodling (R-Pa.)
80. Grasso (D-Conn.)
81. Gross (R-Iowa)
82. Grover (R-N.Y.)
83. Gude (R-Md.)
84. Gunter (D-Fla.)
85. Guyer (R-Ohio)
86. Hanley (D-N.Y.)
87. Hawkins (D-Calif.)
88. Hays (D-Ohio)
89. Hechler (D-W. Va.)
90. Heinz (R-Pa.)
91. Henderson (D-N.C.)
92. Hillis (R-Ind.)
93. Hinshaw (R-Calif.)
94. Hogan (R-Md.)
95. Holt (R-Md.)
96. Holtzman (D-N.Y.)
97. Horton (R-N.Y.)
98. Howard (D-N.J.)
99. Huber (R-Mich.)
100. Hudnut (R-Ind.)
101. Hungate (D-Mo.)
102. Hunt (R-N.J.)
103. Johnson (D-Calif.)
104. Jones (D-N.C.)
105. Karth (D-Minn.)
106. Kemp (R-N.Y.)
107. Ketchum (R-Calif.)
108. King (R-N.Y.)
109. Koch (D-N.Y.)
110. Kuykendall (R-Tenn.)
111. Kyros (D-Maine)
112. Landgrebe (R-Ind.)
113. Latta (R-Ohio)
114. Leggett (D-Calif.)
115. Lent (R-N.Y.)
116. Long (D-Md.)
117. Lott (R-Miss.)
118. Lujan (R-N. Mex.)
119. McCormack (D-Wash.)
120. McDade (R-Pa.)
121. McKay (D-Utah)
122. McKinney (R-Conn.)
123. Madden (D-Ind.)
124. Mann (D-S.C.)
125. Maraziti (R-N.J.)
126. Martin (R-N.C.)
127. Mathias (R-Calif.)
128. Mathis (D-Ga.)
129. Mezvinsky (D-Iowa)
130. Metcalfe (D-Ill.)
131. Mills (D-Ark.)
132. Mitchell (R-N.Y.)
133. Mizell (R-N.C.)
134. Mollohan (D-W. Va.)
135. Montgomery (D-Miss.)
136. Moorhead (R-Calif.)
137. Murphy (D-Ill.)
138. Murphy (D-N.Y.)
139. Nedzi (D-Mich.)
140. Nichols (D-Ala.)
141. Nix (D-Pa.)
142. O'Brien (R-Ill.)
143. Parris (R-Va.)
144. Pepper (D-Fla.)
145. Perkins (D-Ky.)
146. Peyser (R-N.Y.)
147. Pike (D-N.Y.)
148. Podell (D-N.Y.)
149. Price (D-Ill.)
150. Price (R-Tex.)
151. Randall (D-Mo.)
152. Rangel (D-N.Y.)
153. Rarick (D-La.)
154. Rees (D-Calif.)
155. Riegle (D-Mich.)
156. Rinaldo (R-N.J.)
157. Robinson (R-Va.)
158. Rodino (D-N.J.)
159. Roe (D-N.J.)
160. Rogers (D-Fla.)
161. Roncallo (R-N.Y.)
162. Rose (D-N.C.)
163. Rousselot (R-Calif.)
164. Roy (D-Kans.)
165. Runnels (D-N. Mex.)
166. Ruth (R-N.C.)
167. Ryan (D-Calif.)
168. St Germain (D-R.I.)
169. Sandman (R-N.J.)
170. Sarasin (R-Conn.)
171. Sarbanes (D-Md.)
172. Satterfield (D-Va.)
173. Scherle (R-Iowa)
174. Schroeder (D-Colo.)
175. Seiberling (D-Ohio)
176. Shipley (D-Ill.)
177. Shoup (R-Mont.)
178. Sikes (D-Fla.)
179. Sisk (D-Calif.)
180. Slack (D-W. Va.)
181. Smith (R-N.Y.)
182. Snyder (R-Ky.)
183. Spence (R-S.C.)
184. Stanton (D-Ohio)
185. Stark (D-Calif.)
186. Steele (R-Conn.)
187. Steelman (R-Tex.)
188. Steiger (R-Ariz.)
189. Stokes (D-Ohio)
190. Stratton (D-N.Y.)
191. Stubblefield (D-Ky.)
192. Sullivan (D-Mo.)
193. Symington (D-Mo.)
194. Symms (R-Idaho)
195. Taylor (R-Mo.)
196. Taylor (D-N.C.)
197. Teague (D-Tex.)
198. Thompson (D-N.J.)
199. Thone (R-Nebr.)
200. Tiernan (D-R.I.)
201. Towell (R-Nev.)
202. Treen (R-La.)

203. Van Deerlin (D-Calif.)
204. Vanik (D-Ohio)
205. Veysey (R-Calif.)
206. Waggonner (D-La.)
207. Waldie (D-Calif.)
208. Walsh (D-N.Y.)
209. Whitehurst (R-Va.)
210. Whitten (D-Miss.)
211. Williams (R-Pa.)
212. Wilson (R-Calif.)
213. Wilson (D-Calif.)
214. Wilson (D-Tex.)
215. Wolff (D-N.Y.)
216. Won Pat (D-Guam)
217. Yatron (D-Pa.)
218. Young (R-Alaska)
219. Zion (R-Ind.)
220. Stuckey (D-Ga.)
221. Andrews (D-N.C.)
222. Heckler (R-Mass.)
223. Matsunaga (D-Hawaii)
224. Breckinridge (D-Ky.)

[H. Res. 1059, 93d Cong., 2d sess.]

RESOLUTION

Resolved, That it is the sense of the House that, during the period pending consideration and action by the Senate upon the bill H.R. 10710, as introduced in the first session of this Congress, cited as the "Trade Reform Act of 1973", and as amended and passed by the House, no loan, guarantee, insurance, or credit shall be extended by the Export-Import Bank of the United States to any nonmarket economy country (other than any such country whose products are eligible for column 1 tariff treatment on the date of the enactment of this resolution), and no such country shall participate in any program of the Government of the United States which extends credits or credit guarantees or investment guarantees, directly or indirectly.

Mr. ASHLEY. I think that the four issues that have been raised are well understood. Certainly, your first amendment would say that there shall be no extension of credit to a Communist country unless the Congress determines such transaction would be in the national interest through adoption of a concurrent resolution. This, of course, would change the present law in two ways. It would put the responsibility for such determination with the Congress rather than the President.

Mr. ROUSSELOT. Well, our amendments cover not just Communist nations—it is all nations—and we offer these amendments on the basis that that is part of our constitutional responsibility under article 1, section 8.

Mr. ASHLEY. Well, I am taking this from Congressman Dent's testimony now. Second, it would put such determination on a transaction-by-transaction basis rather than a country-by-country basis.

As I say, I think that issue is understood and we will, of course, address ourselves to it.

The second amendment, which would deny credit to any nation which is engaged in armed conflict to the United States, found on page 4, certainly understood on page 6, the amendment that would prohibit the Bank guaranteeing, insuring or extending credit with respect to any nonmarket economy which denies its citizens the right of emigration, that, of course, has been before the House. That issue is understood.

Mr. ROUSSELOT. Yes, that concept is really the Jackson-Vanik amendment.

Mr. ASHLEY. Yes, of course. One might wonder why we say that we would limit it to nonmarket countries——

Mr. ROUSSELOT. If they are denied freedom of emigration, I think that is a very desirable objective, and at least we should review it.

Mr. Ashley. The fourth amendment, which would repeal section 11 of the Export-Import Bank Act, is an amendment which has really not been before us before. I am led to wonder again why this prohibition is directed exclusively to nonmarket countries? If other countries are in debt, why would not that fall within the purview?

Mr. Rousselot. It would.

Mr. Ashley. Again, I was under the impression that this was limited to nonmarket economy countries.

Mr. Rousselot. The Johnson Debt Default Act, I think, covers all countries except those who are members of both the IMF and the International Bank for Reconstruction and Development. We are saying make it apply.

Mr. Ashley. So it would apply to the 105 countries in the world?

Mr. Rousselot. At least that should be a clear consideration. You know, if Russia owes us $11 billion or, I know, we have forgiven a lot of it but we should take a hard look at it.

Mr. Ashley. Should that be on all debts?

Mr. Rousselot. Why not?

Mr. Ashley. I was just curious as to the scope of the proposal.

Mr. Rousselot. That should at least be taken into account. That is our attitude.

Mr. Ashley. Well, I thank you both very much for your testimony this morning.

Mr. McKinney?

Mr. McKinney. Mr. Chairman, I would reiterate the chairman's remarks. I think that the one thing that bothers me is that the nonmarket countries, I think that what has got to be applied has to be applied to all countries in this world, and some of our "friends" are not noted for their emigration policies or freedom of travel also. I just do not think that we can section out one part of the world and say we will deal this way with one and another way with another.

I just want to comment——

Mr. Rousselot. Let me interrupt at this point and comment on that. Many countries, even though they have restrictive policies, do not at least charge their people to leave their country. I think that in the case of Russia where they are putting a bounty on them before they can get out, I think is a clear issue and we ought to think about it.

That is all our point is.

Mr. McKinney. I do not know if you gentlemen knew that in the last session of Congress I put in a bill which would require the Treasury Department every quarter to notify the American people and the executive branch and the Congress of the United States what was owed to us by the world, because it seemed to me we might just sort of collapse the whole mess by having them burn all of those dollars they have been collecting in their vaults, and then we will write off their debts, but not until.

The other thing is I wondered if you gentlemen, Mr. Dent, if you were aware that the fact that the Eximbank, despite the fact that the administration seems to treat the Eximbank as its toy, is, despite the fact that 220 Members of Congress have signed the concurrent resolution, despite the fact that the Vanik amendment has been around, is just about to give Occidental $180 million in Russia.

Mr. DENT. I called attention to that in the early part of my testimony.

Mr. ROUSSELOT. We both mentioned that.

Mr. DENT. The total bill that Occidental will pick up for funnelling to Russia for that particular project would be $10 billion with a 20-year payoff.

Mr. MCKINNEY. Well, the only thing I would like to reiterate is that both of you gentlemen has said, you know, there is a lot of talk in this town about the powerful executive grabbing power and the powerful courts legislating. What happens, I am afraid, is that you and I and our colleagues in these two astute houses throw power away as fast as they possibly can, and that part of your testimony really interests me.

Thank you very much.

Mr. ASHLEY. Mrs. Sullivan.

Mrs. SULLIVAN. I am glad to hear the comments of our two colleagues. It is always interesting to hear Mr. Dent on this matter of exports and loans and so forth because I think he has great knowledge on the subject. I would like to just pose one question to you, gentlemen.

The President has sent to Congress a message recently asking for $250 million to be authorized in the foreign aid bill for Egypt, part of which is to go to clearing up the Suez Canal. There are many reasons why I question the wisdom of the United States to give aid to a country in the Mideast which is surrounded by countries that are rolling in wealth from oil. My question is, is this not a proper place for the Eximbank to make a loan to these countries rather than the United States give Egypt the money through foreign aid? Now I recognize Egypt is a poorer country than those countries which surround it. But why must we, through our foreign aid bill, pass over $250 million, and part of which will help clear the canal, which will even take business away from a canal that we operate and control?

Mr. DENT. My dear Mrs. Sullivan, as you well know it is awful difficult to even think about the question that you asked without losing your temper. You cannot hardly talk about it without losing your temper, but now that is getting to where you cannot even think about it without losing your temper.

The fact remains that the total Arab nations, as such, will have in 10 years at the present rate of oil shipments, $800 billion of income.

Now if the State of Pennsylvania needs the money because of a flood, we dig into the Treasury into which everyone pays taxes to help Pennsylvania, to help Ohio with the terrible disaster that struck them a couple of weeks ago. But the Arabs do not seem to recognize each other as part of their fraternity over there when they are in need. They dump them all onto you and I, and the foreign aid bill should not give them a red cent.

Mrs. SULLIVAN. I am thinking of the fact that the surrounding countries around Egypt, the oil producing countries, are going to be using this canal and using it to a great advantage. Now is that not going to help bring up the economy of Egypt so that Egypt could repay a loan, rather than us just giving when we do not have it to give, the $250 million, at this time?

This is why I thought the ability to borrow—and these are why the banks were created in the first place, so that we could cut down on some aid and let them borrow and pay back.

Mr. DENT. To cut down on aid? I do not suppose you read the message yesterday. That is the highest point of aid since the first 3 years of the Marshall plan, and on top of that, $50 billion spent in this loan Bank.

Mr. ROUSSELOT. I think part of the answer might be that Egypt might just borrow the money from their other fellow Arab countries, who are certainly just flush with our cash. They could borrow it from them. Let them borrow it from them. I realize—and I am sure we will find out—that this $250 million situation was part of the "deal" that was made to settle the war there. I am sure we will eventually find that out. That is my suspicion. No one can prove it, I guess, because it is tough to tie down the Secretary of State and find out everything on all the arrangements he has made. I cannot understand why they just cannot get it from the other Arabic countries that are very flush in our cash.

Mrs. SULLIVAN. I wanted to pose this question. My time is expired, but I wanted to pose this question and at least get the members thinking about this matter.

Mr. ROUSSELOT. I am sure you can ask the Export-Import Bank when they testify as to whether this, in fact, was part of our arrangement, and try to bring that out.

Mr. ASHLEY. Gentlemen, we are going to be obliged to move on.

Mr. DENT. I just want to ask a unanimous consent request.

Mr. ASHLEY. By all means.

Mr. DENT. In answer to the latest question posed by the gentlelady, I would ask at this point in the record I put in some information on Arab money and where it is going so that you know why they cannot loan it.

Mr. ASHLEY. Without objection.

[The information referred to by Mr. Dent follows:]

[From the magazine Inside USA, Apr. 15, 1974]

ABOUT THAT ARAB MONEY

Where are those Middle-East "petro-dollars" going? Answer not yet entirely clear since Arabs prefer quiet, behind-the-scenes deals. Their covert style, incidentally, is due partly to Arab tradition, partly because they've been badly burned before, two such cases being the IOS offshore funds scandal and Beruit's Intra-Bank collapse eight years ago. Moreover, the Arabs are being hustled daily with innumerable schemes, some pretty flimsy. Then, there's the sensitive petro-politics situation to be cautious about.

But the Arabs *are* moving into the US—cautiously, discreetly and so far without any master plan. But they're learning. They form investment boards with Western financial advisors to ponder spending alternatives And the Saudi Arabians contract with Stanford Research Institute for a $60 billion investment-development plan.

So far, Mid-East investors prefer conservative, short-term paper investments such as Treasury bills and blue chip stocks, but more recently they tend toward real estate. Corporate takeovers aren't their style since they generally lack Western management expertise. More typical of their approach are joint ventures and syndicate investing. Some specifics:

Saudi Arabia talks with *Chase Manhattan* about managing a $200 million pool for investments to include US partners.

A group of Arab banks set up *First Arabian Bank* and *First Arabian Corp.* to pump funds—including money to buy ownership in US banks—into the US.

Abu Dhabi and the *Saudis* consider a large new oil refinery for Puerto Rico in partnership with NY firm.

Wooten & Assoc., Dallas developer, gets $200 million in Mid-East financing for a St. Louis apartment complex.

Iran plans eventually to invest heavily in "blue chip" stocks and already agrees to a joint venture with Ashland Oil in NY State.

Adnan Khashoggi, Beruit-based, US-educated Saudi, builds a global network of investments under a Luxembourg umbrella called *Triad Holding Corp.* which buys California's *Security National Corp.*, two banks there, and $1 million in that State's land.

Kuwait, among the most savvy Mid-East investors, uses several US advisors, including Richard Williamson, a Columbia, S.C. lawyer. He says Kuwait has about $100 million in US projects already:

> Kuwaitis put up 50% of the equity in the $100 million downtown Atlanta Hilton mall handled through *Eastdil Realty Inc.*, realty arm of *Blythe Eastman Dillon & Co.*, Wall St. investment house.
>
> *Kuwait Investment Co.*, one of several joint government-private enterprises buys Kiawah Island off Charleston, S.C. for $17.4 million cash and plans a $100 million residential resort.
>
> Kuwaitis acquire an Idaho cattle feedlot operation and own land in California's San Remo Valley. They check into investing in toll road revenue bonds. Their capital, plus Lebanese and Persian Gulf money finances a $250 million Louisville, Ky. realty project previously reported in this newsletter.

Are American fears that the Arabs will takeover our oil companies justified? "No," says Presidential Aide Peter Flanigan when queried at a Senate hearing. He explains that most of those petro-billions are government funds, which limits flexibility of use compared to the private investments of European and Japanese capitalists in this country. And America could take legal steps to prevent it. "Besides," Flanigan concludes, "I have great faith that the Mellons and Rockefellers won't sell."

Mr. ASHLEY. Mr. Young?

Mr. YOUNG. Yes, let me ask you gentlemen to think with me about this whole project as an investment in American business expansion. I take as an example the fact that Japan now is putting just about 1 percent of its gross national product in various kinds of foreign aid, and part of that investment in foreign aid is responsible for their tremendous export expansion. I would like for you to answer the question to what extent do we, by continuing our assistance, however expensive, reduce the probability that markets will slip away or prevent hostilities from breaking out in the future. It is probably a lot less expensive than the military conflicts that raged between these nations in the past, and difficult though this period may be, it is an essential period of transition.

Mr. ROUSSELOT. Well, I will just quickly comment for myself. In the case of Japan and their guarantee or their decision to utilize 1 percent of their gross national product for overseas investment and/or helping their own industries go abroad, they do not go into debt as we do to achieve that. My concern is we have not even got our own fiscal house in order. We have burdened our American taxpayers, in effect, with a foreign aid program for which we put out close now to $300 billion.

I think we have done our part in the grant programs and that they should be sound. I am not opposed to the concept of helping our businesses to do business overseas if it does not export thousands of jobs

and it does not force industry to flee abroad, and if it is a genuine exchange of mutual benefit. But when it ends up that our taxpayers have to pick up so much of the tab, as John Dent has pointed out, then I think it is too much to ask of the taxpayer. We have done our part: $300 billion, almost $300 billion in foreign aid, and as Mr. Dent has pointed out, billions of guarantees through the Export-Import Bank. But there comes a point when we have to look and say, what is a real mutual exchange? What is helping both countries?

None of us object to the idea of a true exchange, but the question is: How much debt will we add on, where the Treasury has to go out and borrow more money to make our taxpayers pay for it?

Mr. DENT. Will the gentleman yield?

Mr. ROUSSELOT. I would be glad to.

Mr. DENT. Directly to your question, which is a question that has been asked many times and there have been many answers. Very simply, the Japanese do not put out 1 red cent of foreign aid money to any country without strings attached for their trade policy. The Asian Development Bank does not give a loan unless that productivity in some way helps the Japanese who control it. We do not do that. We give money in foreign aid to create industry, agricultural fattening pens down through all of North and South America and Central America to create products to bring back to the United States. That is the difference.

As far as war and peace, we have had more wars in the period when we put this particular policy into effect right after World War I in a given number of years, more wars than the first 100 years of the United States put together. When we had a different policy altogether, completely different policy from the War of 1812 on up until World War I, the policy of this Nation was that trade was a matter of economics. But it is no longer and Mr. Kissinger has wiped out any resemblance to economic consideration for trade.

It is nothing but an arm of diplomacy and I will give you one sentence. Franklin D. Roosevelt made one statement that was very prophetic: "Never allow the inexact science of foreign diplomacy to displace the exact science of foreign trade."

Mr. YOUNG. Thank you very much.

Mr. ASHLEY. We thank you both very much for your testimony this morning.

Our next witness is our good friend, the Honorable Richard H. Ichord, sponsor of House Resolution 774. Mr. Ichord, we appreciate your being with us this morning. We have been looking forward to your testimony.

STATEMENT OF HON. RICHARD H. ICHORD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Mr. ICHORD. Thank you, Mr. Chairman.

I would like permission to put my entire prepared remarks in the record, and I would like to cover a substantial part of those remarks at this time.

Mr. Ashley. That will be done. I would remind the gentleman—I find it difficult to do so after the rather extended testimony of the previous witnesses—that we do have other witnesses this morning.

Mr. Ichord. Mr. Chairman, I will shorten my remarks.

I deeply appreciate, Mr. Chairman and members of the subcommittee, the opportunity to appear before the subcommittee today to discuss several matters which have given me great cause for concern, not the least of which is that—until now—Congress has not taken the time and the trouble to conduct a searching inquiry into the entire proposition of the extent to which the United States should engage in trade and resource development with the Soviet Union. I compliment the subcommittee for undertaking the study at this time.

I think this is most important, especially when we consider that the people of America are spending billions upon billions of dollars each year—this year between 80 and 90 billions of dollars—to provide a defense credibility and capability primarily designed to protect ourselves against the Soviet Union. We are not spending $86 billion because of the threat presented by India, not even $86 billion because of the threat presented by Cuba, not even because of the threat presented by Communist China. We are spending that $86 billion primarily because of the threat presented by the Soviet Union.

I think we should consider going to the entire problem of extending credit to Russia. For that reason, there are two principal matters before this subcommittee to which I would address my remarks today.

One is the sense of the House resolution which has been mentioned, by Mr. Dent and Mr. Rousselot, which Mr. Dent and Mr. Aspin cosponsored with me, and is now cosponsored by 224 Members of the House of Representatives. The other matter before you today is one of a set of administration bills submitted by the chairman, by request, I note. Specifically, the one I would focus on is H.R. 13838, the measure to extend the life of the Export-Import Bank for 4 years and increase its lending authority by $10 billion to a new level of $30 billion.

The members of this subcommittee are aware of the many general concerns that have been voiced about the need to rethink the purpose and the role of the Export-Import Bank in the light of present conditions. You must determine whether or not the bank loans are detrimental to the American job market, when for example, an American owned foreign company borrows funds from the Export-Import Bank to purchase goods either from its parent company in the United States or some other U.S. company. Mr. Dent mentioned that in his remarks.

Perhaps we should have a fluctuating interest rate for different transactions. It does not seem to make much sense to me to subsidize an interest rate for an American product sold to a foreign country when we have no competition in the world for that product, as is the case with certain advanced-design aircraft.

Let me give the members of the subcommittee an example. Two or 3 years ago I purchased personally a few bonds that were issued by Chemical Bank of New York in behalf of Pan American Airlines. They were a little risky because of the financial position of Pan-Am at that time. The bonds were sold at par bearing 11⅛ percent interest.

Do you know—and of course, the bank used the money to buy 747's for Pan-Am and they entered into a lease agreement with Pan-Am—at the same time, Mr. Chairman, Pan-Am and TWA and other American lines, competitors, purchased the same airplane, 747 using our money, taxpayers' money, for 6 percent. This I think, is a good example of governmental meddling into the free enterprise system.

We know the rationale for permitting Eximbank to finance this. It is to provide jobs for Boeing to sell their products, to get exchange to cover some of our other imports. But at the same time, what have we done? I raised this question 2 or 3 years ago when I purchased the bonds to the chairman of the full committee. Nothing has been done.

What are we going to do?

We put our own airlines at a disadvantage. I think it invites other action. We are going to subsidize the airlines a little more. We are going to pass regulations to offset the disadvantage. I think this is something which should be looked into by the subcommittee as you consider this legislation.

You will surely consider the possibility that a ceiling should be set on the total amount of money that can be lent to any one country in order that we do not lose the necessary flexibility in our foreign policy.

However, Mr. Chairman, I am not here to discuss the pros and cons of the Export-Import Bank. I am not here to oppose the extension of the life of the Bank, nor am I against all trade with the Soviet Union. But I am here to ask if we are not charting our course in very uncertain and treacherous waters when we embark on a wide-ranging program of exporting both our finances and technological know-how to the Soviets as the apparent downpayment on an elusive but much-sought era of détente, peaceful coexistence, or whatever the Kremlin and the White House choose to call the present relationship between the East and the West.

The question of détente cannot be avoided in a discussion of whether or not we are going to share our resources with the Soviet Union. I have spoken at some length on this subject, Mr. Chairman, on other occasions, and I will not take the time to cover that at this time. I will be happy to make the material available to the subcommittee if it so desires. However. I do have a succinct statement on the two sides of the détente question from retired Gen. Matthew B. Ridgway taken from a copyrighted New York Times article on April 4, 1974, which I would like to share with you at this point. General Ridgway observes:

Détente poses the potentially gravest danger to our Nation of all the problems we face. Whether it is to prove a siren's call to lure us to our destruction, or the first long step toward defusing the terrible threat of nuclear warfare and world-wide holocaust, no man can predict with any assurance. But what any reasoning person can perceive is the distinct possibility that treaties can be abrogated or ignored, that solemn undertakings by the Soviet leadership can be deliberately flouted or repudiated, and that an overnight reversion to the hard-line policies of a former Soviet Government can take place.

He then adds:

There can be no real lessening of tensions, except in an atmosphere of mutual trust. Such trust does not exist. Positive action, not mere words, by the Soviet Government, will be required over an extended period to create such trust. For America's part, I fail to see how it can exist in view of the unrelieved evidence of the actions taken and the courses pursued by the Soviet Government over the

last 50 years, the frequently expressed fundamental objective of spreading its form and concept of government throughout the world—in short, of its aim of world domination.

In view of the many important ramifications implied in our consideration of the extension of credit to the Soviets, I would like to pose eight questions which I believe must be convincingly answered before we go overboard for expanded trade with Moscow.

First, what evidence or future assurances do we have that we will receive a meaningful quid pro quo as a result of greatly increased trade above and beyond the simple commercial fulfillment of such transactions?

I certainly agree with Mr. Dent. We have been using the Export-Import Bank as an arm of diplomacy, and I think, because our national security interest is so much at stake here, we should examine this very, very closely.

Is the Export-Import Bank the proper agency to consider credits to the Soviet Union because of the national security aspects if credits are desirable?

Two, would we not strengthen Soviet military might by developing the U.S.S.R.'s oil and gas fields and sharing our superior technology with them?

Three, what assurances do we have that the Soviets will not exploit our exportation of capital and technology to divert even more of their own resources to their gigantic military buildup?

This is where the security aspects must come into consideration, Mr. Chairman. The Soviet Union at the present time is undergoing the largest peacetime military buildup in the entire history of man. Again, I question whether the Export-Import Bank has the proper expertise to pass upon these questions.

Four, how can we justify becoming dependent upon the Soviet Union for such vital commodities as energy and fertilizer?

Five, what safeguards are we providing against the possibility that our extension of technology and money to build up the sagging Soviet industrial economy will not result in weakening of our own competitive position in foreign markets, and will not finally result in an exportation of American jobs?

Six, are we being reasonable if we believe that the Soviets would pay their debts and continue to export vital products to the United States during a period of international crisis such as the recent Middle East war?

Seven, what concrete evidence do we have that the Soviets are now respecting the most basic human rights by relaxing their repressive emigration policies?

Eight, what indications do we have that the Soviets are changing their policies of persecution of intellectuals and granting the freedom of thought and religion stated in Article 18 of the Universal Declaration of Human Rights adopted in 1948 by the General Assembly of the United Nations?

Mr. Chairman, the Russian wheat deal is well known to all of us. We made available three-quarters of a billion dollars in credit at 6⅛-percent interest to the Soviet Union to purchase American wheat to save the Russians from famine.

The American taxpayers ended up with a $300 million bill in subsidies for this sale of approximately one-fourth of our U.S. wheat crop to the Russians, in addition to billions of dollars in inflated domestic food prices resulting from this transaction.

Later in the same year—on October 18, 1972, to be exact—the administration made a secret agreement to lend the Soviets up to one-half billion dollars from the Export-Import Bank at 6-percent interest before we would require them to submit the financial information regularly required for Eximbank transactions. Much of this, Mr. Chairman, as Mr. McKinney noted, has been extended right in the face of a clear manifestation of the will of Congress, when over one-half of the Members of the House have signed a resolution that Mr. Aspin, Mr. Dent, and myself have introduced, and well over 70 Members of the Senate have also expressed their opposition to such loans.

We insisted that it would be in the best interest of the Bank to respect the wishes of the House of Representatives but apparently our message fell upon deaf ears.

Two pending credit applications for another $198.45 million, including a $180 million loan for a chemical fertilizer complex, are now awaiting final approval before the Eximbank.

Mr. Dent and Mr. McKinney mentioned the $180 million that apparently will be announced in a very short time for a chemical fertilizer plant in Washington. In addition there are three pending preliminary commitment applications for loans totaling $76.5 million, one of which is a $49.5 million application for gas exploration in eastern Siberia. This means that approved loans, pending loans and pending applications would bring the total to $564 million.

Certainly we all realize that any nation's military strength is directly related to its industrial base, technology, and energy resources. The Soviet Union is spending over twice as much of its GNP on military expenditures as the United States. Since our GNP is double that of Russia we can conclude—using their own suspect figures—that we are both spending well over $80 billion per year on defense. When we realize that the United States spends 55 percent of its defense budget on manpower compared to only 25 percent of the Soviet budget for manpower it becomes obvious that the Russians are already spending some $20 to $25 billion more on research and weapons development.

How can we justify such a large expenditure of funds on defense to maintain an adequate deterrence to the Soviet military strength and turn around and lend them money to enable them to divert even more of their own resources to military spending? When we realize that the Soviets are presently using the SALT I agreements to engage in another arms race and are plunging headlong into the most massive peacetime military buildup in the history of man, how can we feel secure in offering them our technology? The only important advantage we hold over them now is our advanced technological lead—once this is gone we could well find ourselves at their mercy.

Mr. Chairman, this is my real objection to credits to the Soviet Union. In February of this year, the Director of the CIA, Mr. Colby, appeared before the Armed Services Committee of which I am a member. He said that "détente does not mean that the Russians have experienced a change of heart." Mr. Schlesinger later appeared be-

fore the committee, head of the Defense Department, and echoed what Mr. Colby said. He said that détente does not mean that the Russians have changed their objectives. But what they are after now is the technology of the United States. I think that Dr. Currie, the head of research and development, put this matter in a nutshell when he stated that as far as basic R. & D. is concerned, we are about equal with the Soviet Union.

But where our superiority lies is the technology that we have spread throughout our entire industrial base, the capability of conceiving of, fashioning, of developing and producing a particular weapons system. Here we find our Defense people testifying in this way, our Export-Import Bank apparently wanting to rush headlong into the exportation of many varieties of our technology. It is more than merely selling it to them. It is loaning them money to purchase that technology.

The proposed Soviet oil and gas deals present special problems in this connection. It is my understanding that the various oil and gas proposals may ultimately involve us in the expenditure of some $10 to $20 billion in these Siberian energy projects. The first concrete application is for a loan of $49.5 million to the Soviet Union to pay Occidental Petroleum, Bechtel Corp., and El Paso Natural Gas to explore the gas deposits in eastern Siberia around Yakutsk. Once the gas reserves are proven and the fields are producing, the gas is to be piped 2,000 miles to a port near Vladivostok where a liquefication plant is to be built and the liquefied gas is to be carried by LNG tankers to the U.S. west coast.

Another deal which has already undergone several stages of development is the so-called North Star project in western Siberia. An American consortium of three Houston companies, Tenneco, Texas Eastern Transmission, and Brown & Root, would develop the Urengoy Fields, located about 100 miles below the Arctic Circle, build the pipelines to pipe the gas 1,500 miles to the ice-free port of Murmansk where the liquefication plant is to be constructed to liquefy the gas for shipment in tankers to the east coast of the United States.

What possible reasoning could lead us to the use of our technology and financing to develop these remote Soviet energy fields? The national security implications involved are so clear that they need not be spelled out. What assurance would we have that the Russians would actually deliver the gas to us in the 1980's especially in view of some major world crisis? The Kremlin leadership might change radically in the years between our technological and monetary investments and the proposed delivery date. I can see why the development of these fields are important to the Soviet economic and military growth but I fail to see how we can be willing to take such a fantastic gamble with virtually no assurances except the "good will" of the Soviet Government and I for one have not been impressed with their "good will" over the years or in recent months.

There are also lingering practical problems, which only our advanced technology can solve, connected with the drilling of wells in permafrost that extends for more than 1,000 feet in depth in some areas, building and moving the gas through pipelines under such severe climatic conditions, the safety hazards involved in shipping the LNG in tankers, and the unavoidable question of whether the gas

could be delivered to our shores at a price that would be economically feasible for American use even if they made good on their promise to deliver the gas.

The President has urged us to strike for a policy of energy independence by the early 1980's which I believe to be a goal in the best interest of this Nation. If we go through with these two deals we could become dependent upon the Soviet Union for 12 percent of our natural gas on the east coast and 8 percent on the west coast. Have we forgotten that the Kremlin urged the Arabs to continue the oil boycott against us and to use their oil-won dollars to subvert the Western currencies? Could we expect less from the Russians themselves?

The shortage of natural gas is also being used as an argument for building the chemical fertilizer complex in the Soviet Union which presently has a pending credit application for $180 million before the Export-Import Bank. I raise the same objections. In many respects our need for fertilizer is even more vital to our national security than gas for our cars and natural gas for heating purposes. Would we not be much wiser and more responsible if we spent these sums of money to perfect the gasification of coal and for the exploration of new gas reserves in our country? I definitely believe this to be the case, Mr. Chairman.

Mr. Chairman, I think we would be remiss if we failed to look into the possibility that we may also be endangering our competitive position in foreign markets and placing our own workers in long term jeopardy. If we provide the capital, the technological know-how, and the management to construct various types of industrial plants in the Soviet Union are we not simply creating the state-controlled equivalent of more multinational corporations inside Russia which will be in a position to compete with us? Surely the Kremlin bosses envision the day when Moscow will be the trading center of the world instead of New York City. It is true that the equipment to build these truck factories, tableware plants, iron ore pellet plants, and all the rest will initially be built by American labor but once they are in place the finished products will be assembled by Russian labor. In the beginning many of the items will be sold in Russia and others will be exported back into the United States. Can we not all wonder about the time when they will become competitive with our American made products?

Also, I would mention the pending agreement to build a seven-plant aerospace complex which is now being proposed by the Soviet Union, and grant the bilateral airworthiness agreement for the Soviet planes to operate. If that becomes a reality, they will certainly become a competitor in a very few years in one of the industries that we have previously dominated in world trade.

But apart from these national security and practical considerations, I think, Mr. Chairman, we would be callous and disloyal to our heritage if we did not also demonstrate our awareness of, and concern for, the plight of the governed in the repressive Communist society of the Soviet Union.

To offer to provide credits and technology to the U.S.S.R. amounts to an extension of favors—a reward, if you will—to the Marxist-Leninist masters of that tyranny.

Do we, as Americans and as freedom's champions, want to reward a government that denies persecuted religious and ethnic minorities the right to freely emigrate from the land of the oppressor?

Are we to naively accept the suggestion that just because a few thousand Russian Jews, thanks only to the pressure of world public opinion, have been allowed to leave in order to settle in Israel, that there are not thousands more who are unable to assume the staggering financial loss and personal hardship required to get out of that country?

What of the millions of others whose freedom to worship as Christians, as Moslems, as God-believing practitioners of every faith and creed, has been denied? Should we turn our backs on them while, with the financial backing of the American taxpayer, we make available money, know-how and technological hardware that will enable the Kremlin to continue its massive rejection of basic human and civil rights?

Furthermore, what of the captive peoples whose culture and nationalistic aspirations for independence have been so tragically trampled by communism's enforced takeover of the Baltic republics, the Ukraine, and Byelorussia, territories of central and western Asia and virtually all of Eastern Europe? Are they to be forever consigned to Soviet bondage and with our help? Let us never lose sight of the fact that the cruelest imperialism the world knows today is the Communist imperialism that has subjugated the proud people of no less than 16 countries throughout the world and certainly as many ethnic groupings inside the Soviet Union proper.

Finally, can we ignore or simply overlook the harassment and frequent detention in prison camps and mental hospitals of those bravest of individuals living under the Communist yoke who dare to breath the inspiring air of intellectualism? How persistent has been the persecution of artists, musicians, novelists, poets, scientists, actors—even ballet dancers—who have dared to engage in creative protest of the inhumanitarian and totalitarian rule of the Communist state?

How can we even speak of donating America's largesse in credits and technology together with the fringe benefit of most-favored-nation trade status to the Soviets when those who have endured so much—men such as Sakharov and Solzhenitsyn, Bukovsky and Maximov, all who have ever known the horrors of the Gulag Archipelago—when they appeal to the conscience of the West not to reward the Kremlin while it continues its repression?

I think we should also stop and take note of the words of Solzhenitsyn in the seventh section of his book "The Gulag Archipelago," and I quote:

> Oh, freedom-loving "leftist" thinkers of the West! Oh, leftist Laborities! Oh, progressive American, German, and French students! For you, all that I have written counts for little. For you, my entire book amounts to nothing. You will only understand it all when they bellow at you—"hands behind your back"—and you yourself trudge off to our archipelago.

Mr. Chairman, I appeal to this subcommittee to report out House Resolution 774 to offer the full House of Representatives the opportunity to express its will on the question of granting any further credits

to the Soviet Union until the legislative process has run its full course and the matter has been finally resolved. I will abide by the will of the majority of Congress. The fact that 223 Members of the House of Representatives have offered their support to this sense of the House resolution is abundant evidence that this body of Congress feels that it still has the responsibility to decide such important policy questions.

I state to Mr. McKinney, we just do not seem to act. It is our fault, because of all of the movement of power to the Executive. This resolution you are well familiar with. I will not dwell upon its contents.

As a more permanent solution to the problem, Mr. Chairman, I would suggest to this subcommittee that you amend H.R. 13838 in such a way that the U.S. Congress retains control over the future operations of the Export-Import Bank, and adequate safeguards are provided to prevent loans to the Soviet Union that are not in the interests of this Nation. I submit to you that no additional loans should be extended to the Soviet Union until:

The Soviet Union offers meaningful evidence that it seriously intends to live up to the spirit of the Strategic Arms Limitation Treaty—SALT I—will agree to the concessions necessary to accomplish the announced goals of SALT II, and will accept the NATO concept of mutual balanced force reduction involving both NATO and Warsaw Pact military might facing each other along the borders of Eastern and Western Europe. This is what we are really aiming at in trade relations with Russia. We want an understanding. We want to be able to keep from spending so much of our money for the defense of this Nation. Personally, I wish that we did not have to spend one dime for defense. But I do not think we would be responsible if we did not, if we did that in view of present world conditions.

Two, we should not extend loans to the Soviet Union until the Soviet Union has taken effective steps to allow their citizens the right to freely emigrate.

Three, until the Soviet Union has ceased the brutal persecution of their intellectuals, and brought their standards of behavior in line with article 18 of the Universal Declaration of Human Rights.

Finally, Mr. Chairman, I respectfully request that this subcommittee refuse to increase the overall lending authority of the Export-Import Bank from $20 billion to $30 billion at this time, because I am strongly convinced that much of this $10 billion increase is specifically designed with the Siberian oil and gas projects in mind. Perhaps a smaller increase would be in order if adequate controls were placed on U.S. credits to the Soviet Union.

Under the prevailing conditions in the world today, I believe that a meaningful safeguard would be also to require the Export-Import Bank to submit each loan transaction with a Communist nation to the U.S. Congress, which should be given 90 days to disapprove such a loan similar to that provided in section 204 of H.R. 10710, the trade bill as passed by the House relating to marketing agreements and to export restrictions.

This, Mr. Chairman, I think would provide effective congressional control to enable us to carry out our responsibilities to the people who pay the bills, to wit, the taxpayers of this country.

I appreciate greatly the opportunity to present my views to the members of the subcommittee, Mr. Chairman.

[Mr. Ichord's prepared statement follows:]

PREPARED STATEMENT OF HON. RICHARD H. ICHORD, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Mr. Chairman, I deeply appreciate the opportunity to appear before this Subcommittee today to discuss several matters which have given me great cause for concern, not the least of which is that—until now—Congress has not taken the time and trouble to conduct a searching inquiry into the entire proposition of the extent to which the United States should engage in trade and resource development with the Soviet Union.

I think this is most important, especially when we consider that the people of America are spending billions upon billions of dollars each year—this year 80 to 90 billions—to provide a defense credibility and capability primarily designed to protect ourselves against the Soviet Union.

There are two principal matters before this Committee to which I would address my remarks today. One is the Sense of the House resolution which I introduced together with Congressmen Aspin and Dent, and which now enjoys the co-sponsorship of a majority of the entire House membership. This resolution, of course, relates only to the Foreign Trade Reform Act of 1973 and calls for a moratorium on any credit extension to the Soviets until that Act has been finally approved by the Congress and signed into law with its prohibition amendment against granting trade concessions to non-market economies which deny their citizens the right of free emigration.

The other matter before you today is one of a set of Administration bills submitted by request by Congressman Ashley. Specifically, the one that I would focus on is H.R. 13838, the measure to extend the life of the Export Import Bank for four years and increase its lending authority by $10-billion to a new level of $30-billion.

The Members of this committee are aware of the many general concerns that have been voiced about the need to rethink the purpose and role of the Export Import Bank in the light of present conditions. You must determine whether or not the Bank loans are detrimental to the American job market when, for example, an American owned foreign company borrows funds from the Export Import Bank to purchase goods either from its parent company in the United States or some other U.S. company.

Perhaps we should have a fluctuating interest rate for different transactions. It does not seem to make much sense to subsidize an interest rate for an American product sold to a foreign country when we have no competition in the world for that product as is the case with certain advanced-design aircraft. You will surely consider the possibility that a ceiling should be set on the total amount of money that can be lent to any one country in order that we do not lose the necessary flexibility in our foreign policy.

However, I am not here today to discuss the pros and cons of the Export Import Bank. I am not here to oppose the extension of the life of the Bank nor am I against all trade with the Soviet Union. I am here to ask if we are not charting our course in very uncertain and trecherous waters when we embark on a wide-ranging program of exporting both our finances and technological know-how to the Soviets as the apparent down-payment on an elusive but much sought era of detente, peaceful coexistence or whatever the Kremlin and the White House choose to call the present relationship between East and West.

The question of detente cannot be avoided in a discussion of whether or not we are going to share our resources with the Soviet Union. I have spoken at some length on this subject on other occasions and the Committee which I chair has done some research on the Soviet use of the term detente. I shall not take the time of the committee Members assembled here today to discuss this matter but I will be happy to make the material I have available to any of those who wish to have it. However, I do have a succinct statement on the two sides of the detente question from retired General Matthew B. Ridgway taken from a copyrighted New York Times article on April 4, 1974, which I would like to share with you at this point. General Ridgway observes: "detente . . . poses

the potentially gravest danger to our nation of all the problems we face. Whether it is to prove a siren's call to lure us to our destruction, or the first long step toward defusing the terrible threat of nuclear warfare and worldwide holocaust, no man can today predict with any assurance. But what any reasoning person can perceive is the distinct possibility that treaties can be abrogated or ignored, that solemn undertakings by the Soviet leadership can be deliberately flouted or repudiated and that an overnight reversion to the hard-line policies of a former Soviet Government can take place."

He then adds:

"There can be no real lessening of tensions, except in an atmosphere of mutual trust. Such trust does not exist. Positive action, not mere words, by the Soviet Government, will be required over an extended period to create such trust. For America's part, I fail to see how it can exist in view of the unrelieved evidence of the actions taken and the courses pursued by the Soviet Government over the last fifty years, the frequently expressed fundamental objective of spreading its form and concept of government throughout the world—in short of its aim of world domination."

In view of the many important ramifications implied in our consideration of the extension of credit to the Soviets, I would like to pose eight questions which I believe must be convincingly answered before we go overboard for expanded trade with Moscow.

1. What evidence of future assurances do we have that we will receive a meaningful *quid pro quo* as a result of greatly increased trade above and beyond the simple commercial fulfillment of such transactions.

2. Would we not strengthen Soviet military might by developing the U.S.S.R.'s oil and gas fields and sharing our superior technology with them?

3. What assurances do we have that the Soviets will not exploit our exportation of capital and technology to divert even more of their own resources to their gigantic military buildup?

4. How can we justify becoming dependent upon the Soviet Union for such vital commodities as energy and fertilizer?

5. What safeguards are we providing against the possibility that our extension of technology and money to build up the sagging Soviet industrial economy will not result in weakening our own competitive position in foreign markets and will not finally result in an exportation of American jobs?

6. Are we being reasonable if we believe that the Soviets would pay their debts and continue to export vital products to the U.S. during a period of international crisis such as the recent Middle East War?

7. What concrete evidence do we have that the Soviets are now respecting the most basic human rights by relaxing their repressive emigration policies?

8. What indications do we have that the Soviets are changing their policies of persecution of intellectuals and granting the freedom of thought and religion stated in Article 18 of the Universal Declaration of Human Rights adopted on December 10, 1948 by the General Assembly of the United Nations?

Having posed a number of questions which I feel are very important for your consideration, I shall make a few observations on some of them. I must confess at this point I see a lot of *quid* on our part but very little *quo* on their part. And I might add that unlike the English "quid" which is a pound sterling the "quid" I am talking about already runs into millions and eventually may run into billions of dollars.

The Russian wheat deal is well known to all of us. We made available three-quarters of a billion dollars in credit at 6⅛% interest to the Soviet Union to purchase American wheat to save the Russians from famine. The American taxpayers ended up with the tab of $300 million in subsidies for this sale of 25% of the U.S. wheat crop to the Russians in addition to billions of dollars in inflated domestic food prices resulting from this transaction.

Later in the same year—on October 18, 1972 to be exact—the Administration made a secret agreement to lend the Soviets up to one-half billion dollars from the Export Import Bank at 6% interest before we would require them to submit the financial information regularly required for EXIM Bank transactions. Credits totaling $289 million have already been extended—$170 million of which has been approved *since* the House of Representatives approved, on December 11, 1973, the Mills-Vanik amendment by an overwhelming vote of 318–80.

As a matter of fact, Mr. Chairman, the Export Import Bank has approved loans for three projects totaling $40 million since March 5, 1974 when Congressmen

Dent, Aspin and myself informed the Chairman of the Export Import Bank that more than half the Members of the House of Representatives had co-sponsored our resolution instructing the Bank to make no further loans to the Soviets until Congress had completed its deliberations on this matter. We insisted that it would be in the best interest of the Bank to respect the wishes of the House of Representatives but apparently our message fell upon deaf ears.

Two pending credit applications for another $198.45 million, including a $180 million loan for a chemical fertilizer complex, are now awaiting final approval before the EXIM Bank. In addition there are three pending preliminary commitment applications for loans totaling $76.5 million, one of which is a $49.5 million application for gas exploration in Eastern Siberia. This means that approved loans, pending loans and pending applications would bring the total to $564 million.

Certainly we all realize that any nation's military strength is directly related to its industrial base, technology and energy resources. The Soviet Union is spending over twice as much of its GNP on military expenditures as the United States. Since our GNP is double that of Russia we can conclude—using their own suspect figures—that we are both spending well over $80 billion dollars per year on defense. When we realize that the United States spends 55% of its defense budget on manpower compared to only 25% of the Soviet budget for manpower it becomes obvious that the Russians are already spending some $20 to $25 billion more on research and weapons development.

How can we justify such a large expenditure of funds on defense to maintain an adequate deterrence to the Soviet military strength and turn around and lend them money to enable them to divert even more of their own resources to military spending? When we realize that the Soviets are presently using the SALT I agreements to engage in another arms race and are plunging headlong into the most massive peacetime military buildup in the history of man, how can we feel secure in offering them our technology? The only important advantage we hold over them now is our advanced technological lead—once this is gone we could well find ourselves at their mercy.

In February of this year Director Colby of the CIA appeared before the House Armed Services Committee. His very first words were "detente does not mean that the Soviets have had a change of heart." Later on the Secretary of Defense Schlesinger appeared before the same committee and testified that detente does not mean that the Soviets have changed their objectives. They are now aiming at acquiring American technology. A short time later Dr. Currie, the head of Research and Development in DOD testified that in basic research and development the Soviet Union and United States are just about equal but where the superiority of America lies is in technology spread throughout our entire industrial base. That is the capability of conceiving of fashioning, developing and producing all that technology that is necessary to do that does give us the superiority that we have over the Soviet Union.

The proposed Soviet oil and gas deals present special problems in this connection. It is my understanding that the various oil and gas proposals may ultimately involve us in the expenditure of some $10 to $20 billion in these Siberian energy projects. The first concrete application is for a loan of $49.5 million to the Soviet Union to pay Occidental Petroleum, Bechtel Corp., and El Paso Natural Gas to explore the gas deposits in Eastern Siberia around Yakutsk. Once the gas reserves are proven and the fields are producing, the gas is to be piped 2000 miles to a port near Vladivostok where a liquification plant is to be built and the liquefied gas is to be carried by LNG tankers to the U.S. West Coast.

Another deal which has already undergone several stages of development is the so-called North Star project in Western Siberia. An American consortium of three Houston companies, Tenneco, Texas Eastern Transmission, and Brown and Root, would develop the Urengoy Fields, located about 100 miles below the Artic Circle, build the pipelines to pipe the gas 1500 miles to the ice-free port of Murmansk where the liquefaction plant is to be constructed to liquify the gas for shipment in tankers to the East Coast of the United States.

What possible reasoning could lead us to the use of our technology and financing to develop these remote Soviet energy fields? The national security implications involved are so clear that they need not be spelled out. What assurance would we have that the Russians would actually deliver the gas to us in the 1980's especially in view of some major world crisis? The Kremlin leadership

might change radically in the years between our technological and monetary investments and the proposed delivery date. I can see why the development of these fields are important to the Soviet economic and military growth but I fail to see how we can be willing to take such a fantastic gamble with virtually no assurances except the "good will" of the Soviet government and I for one have not been impressed with their "good will" over the years or in recent months.

There are also lingering practical problems, which only our advanced technology can solve, connected with the drilling of wells in permafrost that extends for more than 1,000 feet in depth in some areas, building and moving the gas through pipelines under such severe climatic conditions, the safety hazards involved in shipping the LNG in tankers. and the unavoidable question of whether the gas could be delievred to our shores at a price that would be economically feasible for American use even if they made good on their promise to deliver the gas.

The President has urged us to strive for a policy of energy independence by the early 1980's which I believe to be a goal in the best interest of this nation. If we go through with these two deals we could become dependent upon the Soviet Union for 12% of our natural gas on the East Coast and 8% on the West Coast. Have we forgotten that the Kremlin urged the Arabs to continue the oil boycott against us and to use their oil-won dollars to subvert the Western currencies? Could we expect less from the Russians themselves?

The shortage of natural gas is also being used as an argument for building the chemical fertilizer complex in the Soviet Union which presently has a pending credit application for $180 million before the Export Import Bank. I raise the same objections. In many respects our need for fertilizer is even more vital to our national security than gas for our cars and natural gas for heating purposes. Would we not be much wiser and more responsible if we spent these sums of money to perfect the gasification of coal and for the exploration of new gas reserves in our own country? I definitely believe this to be the case, Mr. Chairman.

Mr. Chairman, I think we would be remiss if we failed to look into the possibility that we may also be endangering our competitive position in foreign markets and placing our own workers in long term jeopardy. If we provide the capital, the technological know-how, and the management to construct various types of industrial plants in the Soviet Union are we not simply creating the state-controlled equivalent of more multi-national corporations inside Russia which will be in a position to compete with us? Surely the Kremlin bosses envision the day when Moscow will be the trading center of the world instead of New York City. It is true that the equipment to build these truck factories, tableware plants, iron ore pellet plants, and all the rest will initially be built by American labor but once they are in place the finished products will be assembled by Russian labor. In the beginning many of the items will be sold in Russia and others will be exported back into the United States. Can we not all wonder about the time when they will become competitive with our American made products? The aerospace industry is certainly one excellent case in point. If we agree to build the 7-plant aerospace complex which is now being proposed by the Soviet Union and grant the bilateral airworthiness agreement for the Soviet planes to operate they will certainly become a competitor in a very few years in one of the industries that we have previously dominated in world trade.

Apart from these national security and practical considerations, we would be callous and disloyal to our heritage if we did not also demonstrate our awareness of and concern for the plight of the governed in the repressive Communist society of the Soviet Union.

To offer to provide credits and technology to the U.S.S.R. amounts to an extension of favors—a reward, if you will—to the Marxist-Leninist masters of that tyranny.

Do we, as Americans and as freedom's champions, want to reward a government that denies persecuted religious and ethnic minorities the right to freely emigrate from the land of the oppressor?

Are we to naively accept the suggestion that just because a few thousand Russian Jews, thanks only to the pressure of world public opinion, have been allowed to leave in order to settle in Israel, that there are not thousands more who are unable to assume the staggering financial loss and personal hardship required to get out of that country?

And what of the millions of others whose freedom to worship as Christians, as Moslems, as God-believing practitioners of every faith and creed, has

been denied? Should we turn our backs on them while, with the financial backing of the American taxpayer, we make available money, know-how and technological hardware that will enable the Kremlin to continue its massive rejection of basic human and civil rights?

Furthermore, what of the captive peoples whose culture and nationalistic aspirations for independence have been so tragically trampled by Communism's enforced take-over of the Baltic republics, the Ukraine and Byelorussia, territories of central and western Asia and virtually all of Eastern Europe? Are they to be forever consigned to Soviet bondage and with our help? Let us never lose sight of the fact that the cruelest imperialism the world knows today is the Communist imperialism that has subjugated the proud people of no less than 16 countries throughout the world and certainly as many ethnic groupings inside the Soviet Union proper.

Finally, can we ignore or simply overlook the harassment and frequent detention in prison camps and mental hospitals of those bravest of individuals living under the Communist yoke who dare to breath the inspiring air of intellectualism? How persistent has been the persecution of artists, musicians, novelists, poets, scientists, actors—even ballet dancers—who have dared to engage in creative protest of the inhumanitarian and totalitarian rule of the Communist state.

How can we even speak of donating America's largesse in credits and technology together with the fringe benefit of Most Favored Nation trade status to the Soviets when those who have endured so much—men such as Sakharov and Solzhenitsyn, Bukovsky and Maximov, all who have ever known the horrors of the Gulag Archipelago—when they appeal to the conscience of the West NOT to reward the Kremlin while it continues its repression?

As Solzhenitsyn so aptly observed in the seventh section of his book "The Gulag Archipelago":

"Oh, freedom-loving 'leftist' thinkers of the West! Oh, leftist Laborites! Oh, progressive American, German, and French students! For you, all (that I have written) counts for little. For you, my entire book amounts to nothing. You will only understand it all when they bellow at you—'hands behind your back'—as you yourselves trudge off to our archipelago."

Mr. Chairman, I appeal to this subcommittee to report out H. Res. 774 to offer the full House of Representatives the opportunity to express its will on the question of granting any further credits to the Soviet Union until the legislative process has run its full course and the matter has been finally resolved. The fact that 223 Members of the House of Representatives have offered their support to this Sense of the House Resolution is abundant evidence that this body of Congress feels that it still has the responsibility to decide such important policy questions. This resolution which has been stated in the exact language of the Mills-Vanik-Jackson amendment does nothing more than instruct the Export Import Bank that it is the consensus of the House of Representatives that all loan activities to the Soviet Union cease until the Trade Reform Act of 1973 has been acted upon by the U.S. Senate. This is a stop-gap measure and nothing more. However, I do not feel that we can remain silent and let the bureaucracy make any policies of its choosing without the slightest concern for the legislative body elected by the people to represent them in such matters.

As a more permanent solution to the problem, I would suggest to this committee that you amend H.R. 13838 in such a way that the U.S. Congress retains control over the future operations of the Export Import Bank and adequate safeguards are provided to prevent loans to the Soviet Union that are not in the interest of this nation. I submit to you that no additional loans should be extended to the Soviet Union until:

1. The Soviet Union offers meaningful evidence that it seriously intends to live up to the spirit of the Strategic Arms Limitation Treaty (installment I), will agree to the concessions necessary to accomplish the announced goals of SALT II, and will accept the NATO concept of Mutual Balanced Force Reduction involving both NATO and Warsaw Pact military might facing each other along the borders of Eastern and Western Europe;

2. The Soviet Union has taken effective steps to allow their citizens the right to freely emigrate;

3. The Soviet Union has ceased the brutal persecution of their intellectuals and brought their standards of behavior in line with article 18 of the Universal Declaration of Human Rights adopted by the United Nations December 10, 1948.

Finally, Mr. Chairman I respectfully request that this subcommittee refuse to increase the overall lending authority of the Export Import Bank from $20 to $30 billion at this time because I am strongly convinced that much of this $10 billion increase is specifically designed with the Siberian oil and gas projects in mind. Perhaps a smaller increase would be in order if adequate controls were placed on U.S. credits to the Soviet Union. Under the prevailing conditions in the world today I believe that a meaningful safeguard would be to also require the Export Import Bank to submit to the U.S. Congress each loan transaction involving a Communist nation. The Congress should then be given 90 days in which to disapprove such a loan under provisions similar to Section 204 of the Trade Reform Act of 1973 (H.R. 10710). This would provide effective congressional control to enable us to carry out our responsibilities to the people who pay the bills.

Mr. ASHLEY. Well, Mr. Ichord, it comes as no surprise to you when I say that I do not agree 100 percent with the testimony you have given. But I must say that we have seldom had a more dedicated and committed advocate for the views that you hold, and your testimony, as I have indicated before, will receive the most serious consideration in the deliberations of the subcommittee.

I might say, somewhat tongue in check, that I do not blame you at all for your comment that you will trust in the majority of the House of Representatives. If I had 224 people on a bill of mine I would take very much the same view.

Mr. McKinney?

Mr. MCKINNEY. No questions, Mr. Chairman.

Thank you for the testimony.

Mr. ASHLEY. Mrs. Sullivan?

Mrs. SULLIVAN. I have no questions, but I want to compliment my colleague on a very well written and good presentation.

Mr. ICHORD. Thank you.

Mr. ASHLEY. Mr. Young?

Mr. YOUNG. No questions, but thank you.

Mr. ASHLEY. There was one point that you mentioned. There were a number of courses, but one that struck me with respect to the export of U.S. technology financed, at least in part, by the Export-Import Bank. It is a fact—and this goes to your testimony with respect to Mr. Colby and Mr. Schlesinger—is it not a fact that the Defense Department reviews any proposed effort where there is any question at all with respect to national security?

Mr. ICHORD. I believe that is in the discretion of the President, Mr. Chairman, under the Export Administration Act that we passed in 1969. I do not think that the Defense Department as such—certainly, they would have the right to object—but I do not think that they have any authority to stop the export of technology.

Mr. ASHLEY. Well, I think, Mr. Ichord, you will find that there is an advisory committee arrangement, and there is a most thorough screening.

Mr. ICHORD. I am sure there would be. But they would not have veto power over it.

Mr. ASHLEY. Thank you very much again, Mr. Ichord.

Our next witness was to be our colleague, the Honorable Paul Findley. It was necessary for him to attend another meeting, though he was here earlier. His statement will appear at this point in the record.

[The statement of the Honorable Paul Findley follows:]

Statement of Hon. Paul Findley, a Representative in Congress From the State of Illinois

RETALIATION, LOSS OF ALLIES COULD RESULT FROM FERTILIZER EMBARGO

Mr. Chairman: I appreciate the opportunity to appear before this subcommittee which is consiaering the desirability of authorizing embargoes, including fertilizer. I have a special interest in fertilizer because, as many of you know, I represent an agricultural area. Many Illinois farmers are currently having difficulty securing adequate fertilizer.

However, the answer to the shortage is not an embargo. The possibility of retaliation should be on everyone's mind when embargoes are considered. If U.S. fertilizer customers choose to answer embargo with embargo, we could be in a still worse position.

The U.S. is a net importer of fertiilzer. All nitrogen fertilizer produced in the U.S. is made from natural gas. At the current rate of nitrogen fertilizer import, 2½ percent of the U.S. natural gas supply is used to produce fertilizer.

If a U.S. fertilizer embargo were to be answered in kind by the countries from which we import nitrogen fertilizer, the demand on our already inadequate natural gas supply would be intensified. With the world fertilizer situation at its current desperate level, retaliation is almost a certainty.

If we restrict our exports, we may soon discover that the imported products on which we depend have ceased to flow. Retaliation can spread to other imported products which are vital to our own country. For example, Canada, Mexico, the Netherlands, and Brazil are major purchasers of U.S. fertilizer materials. In return from these countries, we get 65 percent of our potash, large quantities of nitrogenous products and finished phosphate materials, and not incidently, a huge percentage of the coffee consumed in this country. In order to guarantee ourselves continued imports of these goods, we must keep our export doors open.

But this is not the only consideration. There are a number of other reasons why an export embargo must not be placed on fertilizer.

1. Perhaps the most basic reason to keep exports flowing is the integrity of the U.S. in the world marketplace. If we are going to maintain the faith of those countries with which we have entered into contracts, we must honor those contracts. With the Administration's unfortunate decision to embargo soybeans last summer, the U.S. severely damaged its position as a reliable source of agricultural products for other countries. After years of cultivating markets and assuring the Japanese and others that the U.S. was a dependable supplier, that reputation was seriously damaged. Once the U.S. cuts off fertilizer supplies which have been traditionally shipped abroad, foreign buyers will look elsewhere to fill their needs. When supplies again become abundant, those same foreign buyers will remember who helped them in time of need, and will be difficult to win back. The U.S. must maintain its credibility with its trading partners.

2. If these countries begin to question our reliability as suppliers of fertilizer, how long will it be before they begin to doubt our reliability in other areas and turn to other countries where they can receive more constant support? A fertilizer embargo would tend to drive our friends from our arms by denying them a product they need. If foreign fertilizer markets are cut off, the U.S. may find herself with a shrinking foreign market for a great many products and a loss of allies it has taken decades to cultivate.

3. Not only do embargoes of any sort endanger the position of the U.S., they fail to achieve their intended purpose. Embargoes deal with the symptoms rather than with the cause of the ailment. The belief that export embargoes will result in increased supply, and therefore, lower prices at home is widely held but is without foundation.

Denying a fertilizer manufacturer overseas markets does nothing to encourage an expansion of facilities or increase in production. Take away the market, reduce the competition for the product by eliminating foreign purchasers and you remove any incentive for increased production.

What is needed is not a deterrent to production, but incentives for expanded production. So closely interwoven is our economy with those of other nations that we cannot manipulate the marketing system of this country and expect the result to be in our favor. An action such as a fertilizer embargo inevitably would be

counterproductive. This is a lesson which has been repeatedly taught, but seems difficult to learn, especially in times of shortage.

4. The events of last year clearly show that, if there is any hope of maintaining a favorable balance of trade, it is through our agricultural exports. These exports put the balance of payments for 1973 in the black for the first time in three years. Yet, without imported fertilizer products which the U.S. receives in return for exported products, American farmers will be hard pressed to fill domestic requirements for food, let alone meet foreign needs.

5. The increase in agricultural exports has helped to restore the dollar to its former strength in world money markets. A fertilizer embargo will severely threaten the dollar.

Former Treasury Secretary Schultz emphasized this point last September when he said, "If you control exports, all you do is weaken your currency."

All these arguments lead to one conclusion—that a fertilizer embargo would do this country more harm than good. Any advantages of an embargo would be far outweighed by the disadvantages including economic and military setbacks which could last for generations.

Mr. ASHLEY. Our next witness is the Honorable Lester L. Wolff, sponsor of H.R. 10844, to amend the Export Administration Act of 1969, to provide for the regulation of the export of agricultural commodities.

Mr. Wolff, we are happy to have you here with us this morning.

STATEMENT OF HON. LESTER L. WOLFF, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. WOLFF. Thank you very much, Mr. Chairman. I am happy to appear before this subcommittee.

Before making my formal statement, I would like to say that as one of the cosponsors of the legislation that has previously been discussed, I would like to indicate my support. I should also like to add to my colleagues' requests, however, one specific area that I do not believe has been covered—that is regarding the Eximbank guarantees, "no guarantees should be extended to any nation with whom we do not have full diplomatic relations."

It seems incredible to me that we would extend credits to a nation with whom we do not have diplomatic relations. This would cover areas like North Vietnam, North Korea, Algeria, and even the People's Republic of China.

If I may now, I should like to read my formal statement. I shall make this brief, Mr. Chairman. I know that time is of the essence.

Mr. ASHLEY. If you would, we have Mr. Biemiller, who is to testify after you.

Mr. WOLFF. I am pleased to have the opportunity to testify today on the subject of export controls. I come to you today when the Daily News in the city of New York says that bread prices are going to increase by a minimum of 3 cents a loaf in the near future. As the sponsor of H.R. 10844, one of the principal measures being considered by the subcommittee, I feel it is extremely important that this attention be given to the impact which excessive export demands have had on the domestic economy, in terms of inflationary costs and shortage of supplies. Our response to the problem of irresponsible and misdirected export agreements will carry tremendous significance, not only for the American consumer, but for our traditional customers overseas, and for those underdeveloped nations which depend on the United States for their basic needs.

The Export Priorities Act, which I introduced on October 10, addresses itself specifically to the problem of uncontrolled exports of agricultural commodities. Almost 30 Members of the House have cosponsored this legislation, and an identical bill, S. 2411, introduced by Senators Javits and Stevenson, is pending before the Committee on Banking, Housing and Urban Affairs of the Senate.

This legislation arose from my concern over unconscionably high food prices facing the American consumer and the possibility of severe shortages of certain essential commodities, in particular wheat and feed grains. The Council of Economic Advisers recently reported that "perhaps half of the acceleration of food prices could be attributed to the boom in export demand."

Our total food bill jumped $14 billion in 1973. We have experienced the most rapid escalation in food prices since the Korean war. Not only is the American consumer finding himself priced out of the supermarket, but he faces the greatest shortages of staple food products ever experienced in peacetime America.

This scarcity not only has an obvious effect upon the American consumer, but will ultimately hinder the responsibility that we owe to our neighbors overseas. At the time that I introduced H.R. 10844, it was predicted that the United States would find itself so short of certain commodities, like wheat, that it would reach a point where we would either have to shortchange our own people or turn a cold shoulder to needy nations abroad.

In a recent statement jointly issued by Dr. George E. Brandow, professor of agricultural economics at Penn State, and Dr. Norman E. Borlaug, who won the Nobel Prize for developing a new strain of wheat, the comment was made that "it is already evident that the possibility of scarcity is a real one, and that the mishandling of food under such conditions would cost as many lives as some nuclear wars."

We are and have been mishandling the allocation and distribution of our food supplies, and the wheat situation is a case in point. You are all undoubtedly familiar with the running battle between the Department of Agriculture and the baking industry, the Chicago Board of Trade and others, concerned over the possibility of a wheat shortage before the 1974 crop is available.

It is predicted that between now and sometime in July when the 1974 crop is harvested, the United States will find itself over 100 million bushels short of wheat. This prediction is reached by using USDA figures, although the Department of Agriculture actively denies the possibility of a shortage occurring.

I would like to briefly run down the controversy for you. Our domestic need is 800 million bushels of wheat. Our supply is 2.1 billion bushels, which sounds like more than enough to feed this Nation and cover any emergencies that might arise. However, the administration has permitted export commitments totaling 1.4 billion bushels, which leaves only 700 million bushels, 100 million less than we actually need. The Department of Agriculture, however, claims that we will not only be able to meet the present demand, but actually have a 178 million bushel carryover.

This is due to the fact—or I might say hope—that many announced export sales may be phony—and that is their own quote—that is, not take place, be canceled or be deferred. Whether this contention is

based on hard evidence or wishful thinking is impossible to tell, as neither the Congress nor the public has been privy to the reasoning behind Secretary Butz' thinking.

The real point, however, is that even if we do find ourselves with a carryover of 178 million bushels, the Department has neglected to add that this carryover represents a 60-percent reduction from last year's carryover of 438 million bushels, and that a reasonable and necessary carryover should be about 300 million bushels.

I might just add that this carryover which we refer to as a surplus is in reality the bulk of the world's grain reserves. It is as essential to domestic needs as it is to global requirements.

If anything, the controversy over the possibility of a wheat shortage points to the highly significant role which exports play in dictating food prices and supplies. There exists and will continue to exist a precarious balance between food production and global—including United States—needs. Any massive, mismanaged or irresponsible export agreement carries the potential of being extremely dangerous and catastrophic.

Again, to refer to a case in point, we look back to the United States-Soviet wheat deal in the summer of 1972, which was the largest private grain sale in U.S. history. The General Accounting Office has already detailed the administration's utter negligence and lack of responsibility in negotiating this agreement.

The fact is that we sold the Soviet Union over 400 million bushels of wheat, approximately 20 percent of our supply, at $1.65 a bushel, and we helped them to finance the deal on generous credit terms at the expense of the American consumer. In addition, this agreement cost us about $300 million in export subsidies.

It jacked up the price of bread in the States by about 2 cents a loaf alone, cost the U.S. taxpayers millions, and created a very real dent in our wheat supply. Now rumor has it that the Soviet Union is willing to sell back to us our own wheat, to help us stave off scarcity—but not at $1.65 a bushel, but at the market price of over $4 a bushel.

The GAO report concluded that as a direct result of Russian grain agreement:

> Domestic wheat prices rose from about $1.68 a bushel in 1972 to $3 in May of 1973. Consumer costs attributed to the sales included higher prices for bread and flour-based products, increased prices for beef, pork, poultry, eggs, and dairy products resulting from higher costs for feed grains, and a severe disruption of transportation facilities with attendant higher costs and shortages or delays in delivering certain supplies.

The GAO also commented that since "the Department of Agriculture had no way of assessing the implications of such large sales on the domestic economy, the Department was an involuntary participant to the disruptive effects of Russia's large purchases made in a short time frame."

The Soviet wheat deal and the current wheat situation are perhaps the most blatant indicators of the need for an intelligent approach to allocating our food supplies. We might look back as well to the shortages of soybeans, cottonseed oil and meal which plagued us in 1973.

The severity of these shortages led finally to export controls, but the controls were hastily contrived and poorly managed. As a result, we alienated traditional trading partners like Japan.

Even while denying the possibility of a wheat shortage, the administration has been running helter-skelter to try to get deferrals on announced export sales. Just recently, it was decided to lift the quota system on wheat imports. We might well ask how this happened when we harvested the biggest crop in our history last year.

The very concept of continuing to export a commodity that is in short supply at home, and then encouraging imports of the same product, is economic folly. We need to introduce some measure of order into what is now a chaotic handling of our food export policy.

That policy is run now on a philosophy that tries to reconcile two opposing points of view. The Department of Agriculture says in one breath that "no government should undertake lightly to abrogate contracts that were made in good faith", and in the other says that "almost every agreement to sell is in fact a conditional sale, subject to cancellation."

I do not advocate export controls lightly. Since first coming to Congress, I have sought to broaden our free enterprise system and broaden the free market. However, I think we are kidding ourselves in maintaining that a free market situation as regards agricultural exports actually exists when our largest sales have gone to nonmarket states, like the Soviet Union, where unified state monopolies are set up against individual U.S. traders.

We do not have a free market situation when massive export agreements benefit few at the expense of many; and we do not have a free market when traditional trading partners are denied access to exports because of scarcity, or because other nations are building up their own stock of food reserves at our expense.

The Export Priorities Act, which I introduced last fall, has actually a twofold purpose. It attempts to provide a more orderly marketing system of our agricultural products, and to widen participation in the international sales of food commodities by providing for an export licensing and allocation system.

It also seeks to insure American consumers an adequate supply of food at reasonable prices. The bill requires the Secretary of Agriculture to pinpoint what can be exported through a public forecast of domestic needs. The amount available for export would be the total supply available, less the domestic need, a reasonable carryover, and a reserve for international natural disaster needs.

I might also point out that the bill defines a reasonable carryover as 40 percent of domestic needs, which represents a level necessary both for the security of the American consumer and world needs, as has been historically present. The provision which establishes or provides an export licensing and allocation system, besides protecting supplies needed for domestic consumption, would protect traditional markets for U.S. exports and leave room for new markets that might emerge as a result of hardship.

The Secretary of Commerce would be authorized to lift this export licensing system in the case of any agricultural commodity which he determines is produced in sufficient quantities to meet both U.S. demands and world requirements. I might add, Mr. Chairman, that the United States is almost alone among the major world food producers in not restraining food exports. Canada, Argentina, and Australia have

created wheat boards, and these countries plus the Common Market countries have moved to control exports.

There are so many unpredictable or difficult to control factors influencing food supplies and prices, like the weather, the availability of fuel supplies and inflation; surely we should introduce some measure of restraint over those factors, like exports, which we can control.

In conclusion, I might just say that in the wake of the energy crisis, I doubt very seriously whether the American people will stand for further rapid price hikes and shortages in another basic commodity, food. Having muddled through the problems of gas lines, we cannot afford bread lines to be next. We have a responsibility, both to the American consumer and to our old friends and needy neighbors overseas, to tackle the problem of uncontrolled exports before the situation controls us.

I thank you, Mr. Chairman.

Mr. ASHLEY. Thank you, Mr. Wolff.

Mr. McKinney?

Mr. McKINNEY. I would like to congratulate my colleague from New York on his testimony and his ideas. I would also like to congratulate him on his charity by talking about intelligence down at the Agriculture Department. I have wondered since I have been in Washington, and it is interesting to hear that you can be so charitable to say that it is intelligent to sell wheat to the Russians for a dollar and a half, and then turn around and have to buy it back for the American people at over $5, when we loaned them all the money to buy it in the first place. I think that, as I have always said, you are a charitable person.

Mr. WOLFF. Well, I did not intend charity, Mr. McKinney. I have said before that what this country needs is guts not Butz.

Mr. McKINNEY. You have hit the most important thing facing this country. I put a bill in on it, and I know you have, and that is that we have no idea of what we need in the way of food. We grow enough soybeans to pave the United States from one coast to the other coast with a soybean carpet, and yet we have a shortage of soybeans.

It is an incredible situation, and I would certainly hope that this will become part of the subcommittee's deliberations, and that especially, we will not loan money to rich nations. I always thought the idea was to give loans when you were competing for a product that was in great supply, and when you wanted to sell your sewing machine instead of having them sell theirs. We are, I think, probably the only nation that has ever loaned money when we are the only place the product can be gotten. We should be saying, all right, if we are going to do this you give us your gold, we will give you our wheat. Instead, we give them our gold and our wheat, and then buy it back for a trade deficit.

Thank you for your testimony.

Mr. WOLFF. Thank you for your support Mr. McKinney. Thank you Mr. Chairman.

Mr. ASHLEY. Thank you, Mr. Wolff.

A statement has been received from another colleague the Honorable Olin E. Teague. It will be inserted in the record at this point.

[The statement of the Honorable Olin E. Teague follows:]

STATEMENT OF THE HONORABLE OLIN E. TEAGUE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. Chairman: While your committee is considering the Export Administration Act Amendments, I would hope that it would consider the ferrous scrap situation. For the past several months I have been in close touch with the Department of Commerce with respect to ferrous scrap, which is a vital component of steelmaking. The situation seems to be steadily deteriorating.

The prices of scrap have soared 200% above 1972 averages, especially in the essential grade. The cost impact on the steel industry is having an unnecessary inflationary impact on the economy of this country. Ferrous scrap is being permitted to leave the United States at prices higher than domestic prices and then return in the form of finished iron and steel imports to the United States. Inventories of this commodity which constitute almost one-half of our metallic input have shrunk to their lowest levels since World War II.

While other industrial countries assure their own needs for ferrous scrap, the United States alone permits massive and unprecedented exports of this essential commodity. In doing so, the United States has put its own steelmakers and foundries at an unfair disadvantage. It was under the Congressional Declaration of Policy of the Export Administration Act of 1969 that the Department of Commerce instituted some export controls; however, the inflationary impact continued since price controls on the domestic ferrous scrap serve no advantage when the export market price and demand can outbid and outweigh our own domestic market.

For the first quarter of this year the Department of Commerce has announced an export figure of 2.1 million tons of ferrous scrap and an equivalent figure for the second quarter was just recently announced. This trend cannot continue if we are to permit our own country to grow and to further insure that our industries will have priority use of our own domestically produced raw materials.

I would like to urge this subcommittee to limit exports of iron and steel scrap at least to an amount of 300,000 net tons a month or preferably institute a protective embargo for 180 days duration. We must act now to prevent the disruption of production scheduling in steel mills and foundries in the United States when domestic demand for iron and steel is at the highest level in history and when shortages of many steel products persist. The health of our basic industries and the freedom from inflation for our people should be our priority at this time. The above action for ferrous scrap is certainly in accord with the knowledge that all raw materials are in finite supply.

Mr. ASHLEY. Our next witness this morning is one who is very well known to us all, Andrew J. Biemiller, Director of the Department of Legislation of the AFL–CIO. Mr. Biemiller is accompanied this morning by Nathaniel Goldfinger, Director of Research.

We appreciate your patience. I am sure you understand the problems that face the Chair when it is necessary to accommodate the interests of his colleagues in the House. If you will proceed, sir.

STATEMENT OF ANDREW J. BIEMILLER, DIRECTOR, DEPARTMENT OF LEGISLATION, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS; ACCOMPANIED BY NATHANIEL GOLDFINGER, DIRECTOR OF RESEARCH, DEPARTMENT OF LEGISLATION, AFL–CIO

Mr. BIEMILLER. Mr. Chairman, the AFL–CIO welcomes the opportunity to express its views on the Export-Import Bank and on export control policy in relation to U.S. economic and foreign policy.

As we understand it, the subcommittee has before it two major bills: H.R. 13838 would extend the life of the Eximbank for 4 years past its June 30, 1974, expiration date and expand the authority for loans,

insurance, and guarantees by 50 percent, from the present $20 to $30 billion. H.R. 13840 would extend the Export Administration Act for 3 years past its June 30, 1974, expiration date and grant the President additional authority and discretion to curb or prohibit exports.

The subcommittee also is seeking comment on House Resolution 774, which would express the sense of the House that no Eximbank programs should be extended to non-market-economy countries other than Poland and Yugoslavia during the period the Senate is considering and acting on H.R. 10710, the Trade Reform Act of 1973.

We hope that these hearings will provide a thorough review of Eximbank's activities and of export control policy. We completely support such a review. It is long overdue.

It is time for a complete redefinition of the Eximbank's role. We believe that the Bank has exceeded its intended authority. We believe its recent activities amount to a blatant promotion of the interests of the Soviet Union at the expense of vital American interests.

One measure of this is the unseemly haste with which the Bank is pursuing détente. As recently as January 1972, the Bank had no involvement with the Soviet Union. Since then, more than $1 billion in loans and guarantees have been extended to the Soviet Union and other Communist countries.

These are long-term, low-interest loans in which the American public, which supports the Eximbank, gets the worst of the bargain.

Take the Bank's first loan on the Soviet's Kama River truck complex. Eximbank loaned $86,420,000, amounting to 45 percent of the total project cost, at 6 percent. Chase-Manhattan Bank extended loans for another 45 percent of the project at a higher interest rate. What interest rate? That is a banking secret—but it is a higher rate.

Now, how is the loan repaid?

According to the terms announced by the Bank, the first payment is due on October 10, 1977—and that goes to Chase. Chase is repaid in subsequent semiannual installments ending in October 1983.

Then, and not until then, does the Eximbank start getting its money back, and it is not paid off until 1989.

So the commercial bank lenders participating in Eximbank loans get paid first, and they get a higher rate on their money than do the people of the United States.

If the Soviet Union reneges on its loan, as it has on so many commitments, it is the people of the United States who take the biggest and longest risk at the lowest rate of return.

The loans to the Soviet Union are for such major facilities as the $342 million Kama River truck complex, which will be the largest in the world, a $44.5 million acetic acid plant, a $36 million iron ore pellet plant, and loans for $30 million for facilities for manufacturing pistons. Pending, with respect to the Soviet Union, are applications for an additional billion or more in loans for such facilities as a $400 million chemical complex, a $110 million gas exploration plant, and a $37 million auto component manufacturing process.

In addition, applications to the Bank for loans of unspecified amounts are expected for Siberian energy projects estimated to cost more than $7 billion.

We are concerned about the magnitude and type of these transactions, not only because they involve countries with which the United States has had no substantial relationship for some 30 years, but because they involve nations whose military posture and political systems are still, to a large extent, inimical to the best interests and values of the United States.

It seems to us that all of the examples that we have quoted are easily susceptible to military use. Why should the United States be using the American taxpayers' money to strengthen the war machine of the Soviet Union?

The administration appears determined to plunge ahead with these transactions with the Soviet Union, despite clear expressions of opposition from the Congress and—we think—in clear violation of the law. For example:

The House has voted 319 to 80 for the Vanik amendment, which would halt the unrestricted extensions of credit to the Soviet Union. In the Senate, there are 78 cosponsors to the amendment by Senator Jackson which would apply the same restrictions to the trade bill now pending before the Senate Finance Committee.

Just recently, Senator Case called attention to the fact that parts of the October 1972 trade agreement between the United States and the Soviet Union had not been submitted to Congress as required by the Case Act—and that the administration was implementing the agreement through the extension of substantial credits by the Eximbank to the Soviet Union. Senator Case asked for information both about the United States-Soviet agreement and about whether the Bank had received the necessary financial information on which to make an adequate judgment as to the reliability of the loans. Neither inquiry, to our information has received a satisfactory reply.

In response to an inquiry from Senator Schweiker, the General Accounting Office found recently that the Bank was not obeying the law in extending commercial loans to the Soviet Union. From the legislative history of the law setting up the Bank, GAO found that the President must determine that each transaction individually was in "the national interest" and submit to Congress the reasons why. The Bank has been making extensions of credit to the Soviet Union under a blanket ruling by the President in October 1972 that such transactions with the Soviet Union were in the national interest. When the Bank temporarily halted further loans to, or transactions with, the Soviet Union, Attorney General Saxbe found a convenient loophole:

No matter what the statute said or what was the clear intent of Congress, the President could get away with a blanket approach because he had been doing it, and since Congress had not challenged him in the past, it could not challenge him now.

So the Bank has resumed its program of loans to the Soviet Union—loans at interest rates that no American homeowner, worker, or businessman can get. No matter how you slice it, such loans are foreign aid to the Soviet Union.

Two months ago, the Bank increased its lending rate to 7 percent from 6 percent. Despite that, on March 22, 1974, the Bank reported some new loans to the Soviet Union at the 6-percent rate.

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In the meantime, the prime lending rate in the United States has been rising. It has reached 10¼ percent, in fact 10½ percent by now, and seems to be heading even higher.

Most recently, the Bank has turned down a request from Senator Stevenson on March 29, 1974, that the Bank suspend all further approval of loans, guarantees, and insurance involving transactions with the Soviet Union and Eastern Europe pending the completion of hearings by the Senate Subcommittee on International Finance on the Eximbank and export control policy.

We think this recent record is a clear expression of intent by the Bank to consider the interests of the Soviet Union before that of the American people.

We agree with the position set forth by House Resolution 774 which would suspend Eximbank extensions of credit to non-market-economy countries pending completion by the Senate of consideration of the trade bill. As members of this subcommittee may know, the resolution comes out of the Eximbank's continued extension of credit to the Soviet Union and even in the wake of the overwhelming vote in favor of the Vanik amendment. To impress upon the Nixon administration the fact that the House is opposed to these extensions of credit, Congressmen Dent and Ichord introduced this resolution carrying 220 signatures.

We would go further than the resolution, however, and include Poland and Yugoslavia within its prohibitions. But in light of the administration's attitude, it seems fully prepared to continue to ignore the wishes of Congress even if House Resolution 774 is adopted.

Our longstanding concern about the Bank's operations, however, goes well beyond loans to the Soviet Union and other Communist countries. The Bank is involved all over the world. We are concerned about the total impact of the Bank's operations, which have been expanding at an accelerating pace. For example, it was just 2 years ago that the Export Expansion Finance Act of 1971 expanded the Bank's commitment authority from $13.5 billion to the present $20 billion. The former President of the Eximbank, Henry Kearns, reported that from 1969 to 1973, Eximbank loans rose by 117 percent from $1.1 billion in 1969 to $2.4 billion in 1973; financial guarantees rose 226 percent, from $112 million in 1969 to $1.5 billion in 1973; commercial bank guarantees rose from $278 million in 1969 to $411 million in 1973; exporter credit insurance rose by 200 percent, from $824 million in 1969 to $2.5 billion in 1973; and the Bank's discount program rose 786 percent from $185 million in 1969 to $1.6 billion in 1973.

We find that many of the loans by the Bank result in the export of American jobs and American technology. Indeed, the exports of America are now increasingly the entire production process—jobs, technology, and capital. We are sending our industrial plants abroad, and sometimes as a result of Eximbank operations financed by U.S. taxpayers.

What is most disturbing is that the production processes and technology America is sending abroad are sophisticated, the job generators of the future. Where U.S. exports were once plants which produced shoes, apparel, and textiles, the United States is now sending abroad equipment and technology for electronics, computers, aircraft, aero-

space—areas in which the United States was once predominant in the world, thus giving up America's clear competitive lead.

These exports are a one-shot gain for the balance of trade—but the long-term result is that this equipment and technology is used abroad to manufacture products which then flow back into the U.S. market as imports.

Serious conflict with American interests can and do arise from Bank transactions. For example, on May 11, 1973, at a time when the United States was facing a shortage of cotton, Eximbank helped finance the sale of raw cotton to the Bank of Tokyo in Japan.

This loan took place at a time when the United States was suffering a substantial balance of payments deficit. The commodity was in short supply in the United States, and domestic prices were rising. The cotton exported to Japan was to be turned into textiles—and Japanese production of textiles for import into the United States had already become so serious a problem that import restraints had been put on them.

Our attention has also been called to another serious problem with which the Bank wraps its activities. It is almost impossible, as a result, to determine not only whether the Bank is subjecting the loan to the appropriate analysis, but what weight is being given to the relevant factors. For example, last year the Seafarers International Union through private channels learned that the Bank was considering a loan to Mexico for the purchase of nine U.S.-built tuna vessels. It questioned the Bank as to whether it was considering the effect of the loan on U.S. industries and employment, and its effect also on international conservation laws concerning tuna. The Bank replied that these factors were being considered, but what weight was being given them would not be revealed until after the transaction was either approved or disapproved.

Understandably concerned by this response, the SIU filed a brief with the Bank, pointing out the consequences of the approval of the loan and the introduction of nine additional vessels into the west coast tuna fleet. It would provide greater international competition for already limited tuna resources, potentially harming the U.S. tuna fleet. Much of the tuna caught by the new Mexican vessels would be canned in Mexico, shipped into the United States, seriously affecting the U.S. cannery industry and its workers. The west coast tuna industry already is overcapitalized by a large number of boats and a fishing capacity that exceeds the available catch. Introduction of Mexican vessels into this situation would injure the already shaky stability of the U.S. industry, potentially destroying American jobs.

It was only after alerting the appropriate Congressmen and committees to the problems involved in the loan that the SIU got action. The loan was referred to the National Advisory Council on International Monetary and Financial Policies, which advises the Eximbank on its loans. Based on the information submitted to it by the union, the council recommended against the loan and the Bank turned it down.

The point of this, however, is that it was only by chance that the SIU learned of the loan in advance, and only by strenuous efforts that the union was able to get proper consideration of this extremely pertinent information.

The Bank never makes specific reports on the employment impact of individual loans. Bank President Casey, in recent testimony, declared that the $10.5 billion of export sales supported by the Bank in fiscal 1973 "translates into 738,000 full-time American jobs."

This glib translation leaves out the essential fact that there are fewer jobs in many manufacturing industries today—for example, in auto parts and aerospace, where the Eximbank in granting and considering loans for the export of the newest equipment and technology.

This is what we mean when we say that America's industrial base is suffering serious erosion. We firmly believe that, in light of all that we have discussed here, it is time to put specific limitations on the Bank's operation.

We urge that:

The Eximbank be brought back under the control of the Federal budget, making it subject to the congressional appropriations process. Congress removed the Bank from budget control in 1971 at the request of the administration and the Bank, thus leaving it free to extend credits for the promotion of exports regardless of the impact on the budget. Federal budget deficits can contribute to inflation at home and worsen America's standing abroad.

The Congressional Budget Act of 1974, already passed by the Senate, brings the Eximbank and similar agencies back under the control of the budget as a class. We think that the legislation pending before this subcommittee should specifically require that Eximbank be brought back under control of the budget.

It is important to underline the need for including the Bank under the budget because of the comments by Bank President Casey in recent testimony that the Bank is an "unusual" Government agency because it provides $50 million in payments to the Government each year. But according to J. Kenneth Fasick, Director of the General Accounting Office's International Division, the failure to include the Eximbank in the budget "understated the (Federal) deficit by about $498 million in fiscal 1973."

Expanded Bank operations, as contemplated by the 50 percent increase in authorization by the Bank, could understate or overstate budgetary impact by "billions of dollars in the near future," according to GAO.

The Bank should be barred from making further loans for energy projects to the Soviet Union. We agree with the intent of H.R. 13880 introduced by Congressman Dent, to specifically forbid all U.S.-supported investment in Russian energy development programs on the ground that "if our taxpayers are going to subsidize energy development, the investment should be made here, not in Siberia."

Congress should be given advance notification of each specific transaction involving the extensions of credit to Communist countries by the Eximbank. We agree with the suggestion by Comptroller General Staats in his testimony to the Senate subcommittee that Congress should have a specified time in which to review any such transactions before it is consummated. This would, we believe, close the loophole in the law opened by the Attorney General in his recent ruling.

We would go further. We believe Congress should be given advance notification of each and every specific transaction involving the exten-

sion of credit by the Eximbank. Such advance notification should include the project's impact on U.S. employment in detail—not only of shortrun job creation, but of longrun job destruction.

We would like to direct the subcommittee's attention to our statement submitted to the Senate Subcommittee on International Finance last November, and included with this testimony as an appendix, which presents several additional questions concerning the Eximbank including:

What is the relationship between Eximbank and multinational corporations and banks?

Is Eximbank support needed for U.S. exports in the 1970's?

Is Eximbank ultimately financing more imports than exports?

Is Eximbank effectively providing subsidies or grants to huge corporations and governments which do not need them?

What is the impact of Eximbank on U.S. interest rates and money markets?

Is Eximbank helping the balance of trade and balance of payments of other countries at U.S. expense?

Who gets the benefit and who pays the costs of Eximbank risks?

How can Eximbank be made more responsive to the U.S. national interest?

So long as questions like this remain in the minds of the American people, this subcommittee—in our opinion—has the duty to conduct a full-scale examination of the Bank and its operations.

Let me turn now to H.R. 13840, a bill to extend the Export Administration Act for another 3 years and broaden the President's authority to regulate exports. Our basic objections go to the present act and its administration. The AFL-CIO believes that Congress should provide more than just a simple extension with a few amendments. We believe there should be a careful study of the basic act and its administration which would provide a thorough revision of the entire measure.

The AFL-CIO has repeatedly called for effective controls on exports of farm goods, crucial raw materials and other products in short supply domestically. We have repeatedly urged effective controls on exports of American technology. As part of this, we believe that U.S. firms and their foreign subsidiaries and affiliates should provide the American Government and the public with advance notification before consummation of any agreement to exchange American technology or U.S. technical data with a Communist country. We have called attention to the need for effective regulation of strategic materials.

We believe that here, too, U.S. firms and their foreign subsidiaries and affiliates should provide advance notice of any transactions with a foreign nation that could affect the export of strategic materials, particularly transactions with Communist countries.

The administration's policy has been—and continues to be—a policy of mismanagement of export regulations, or worse still, the failure to impose them.

The administration's actions have resulted in accelerated inflation since the summer of 1972. The stepped-up pace of rising prices was touched off by the huge Russian grain deal in July of 1972. It was worsened by the official devaluations of the American dollar, which

resulted in large-scale export of farm products and crude materials such as steel scrap, copper scrap, waste paper, and fertilizer which are in short domestic supply.

The administration traded off price increases for the American people and sacrificed the living standards of the American people for a temporary improvement in the balance of payments accounts. It failed to produce a trade surplus for manufactured goods or a workable solution to the problems of the U.S. position in the world economy. The trade figures improved on paper, but the United States is left with inflationary shortages at home.

At the same time, the Government's failure to regulate and curb excessive speculation and profiteering in the commodity exchanges brought tremendous increases in the spot prices of basic farm products and crude materials.

The cash spot price of wheat, for example, was $1.60 a bushel in mid-April of 1972, and $4.03 on April 19, 1974. Soybeans went from $3.54¾ to $5.70 in the same period. Corn rose from $1.25 per bushel to $2.69½. Steel scrap soared from $35 a ton to $140. Cotton went from 38.9 cents per pound to 69.7 cents. Such price boosts are pressing on costs and prices all along the line to the retail store and the consumer.

The AFL–CIO supports the establishment and maintenance of effective export controls on agricultural products and crude material in short supply until inflationary shortages are ended and pressures on the prices of such products subside. The Federal tax subsidy for export companies—DISC—should be suspended for the export of commodities in which there are price raising supply problems. Effective Government regulations of the commodity markets—including margin requirements—is needed to curb excessive price-boosting speculation and profiteering.

The AFL–CIO seeks adequate U.S. responses against new and old barriers to U.S. products raised by other nations, particularly at a time when other nations put self-protection first.

Mr. Chairman, we are not opposed to exports per se. We are opposed to exports which harm the American people. We are in favor of exports which help the American people and which result in beneficial and fair trade. We think that the Eximbank should have this as its guiding principle. Furthermore, a comprehensive export and import control act is necessary to achieve that end and should be solely administered with that end in mind.

[The prepared statement of Mr. Biemiller, with appendices, follows:]

PREPARED STATEMENT OF ANDREW J. BIEMILLER, DIRECTOR, DEPARTMENT OF LEGISLATION, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS (AFL–CIO)

The AFL–CIO welcomes the opportunity to express its views on the Export-Import Bank and on export control policy in relation to U.S. economic and foreign policy.

As we understand it, the subcommittee has before it two major bills: H.R. 13838 would extend the life of the Eximbank for four years past its June 30, 1974 expiration date, and expand the authority for loans, insurance and guarantees by 50 percent, from the present $20 billion to $30 billion. H.R. 13840 would extend the Export Administration Act for three years past its June 30, 1974, expiration date and grant the President additional authority and discretion to

curb or prohibit exports. The subcommittee also is seeking comment on H. Res. 774, which would express the sense of the House that no Eximbank programs should be extended to non-market-economy countries other than Poland and Yugoslavia during the period the Senate is considering and acting on H.R. 10710, the Trade Reform Act of 1973.

We hope that these hearings will provide a thorough review of Eximbank's activities and of export control policy. We completely support such a review. It is long overdue.

It is time for a complete redefinition of the Eximbank's role. We believe that the Bank has exceeded its intended authority. We believe its recent activities amount to a blatant promotion of the interests of the Soviet Union at the expense of vital American interests.

One measure of this is the unseemly haste with which the Bank is pursuing "detente." As recently as January, 1972, the Bank had no involvement with the Soviet Union. Since then, more than a billion dollars in loans and guarantees have been extended to the Soviet Union and other Communist countries.

These are long-term, low-interest loans in which the American public, which supports the Eximbank, gets the worst of the bargain.

Take the Bank's first loan on the Soviet's Kama River truck complex. Eximbank loaned $86,420,000, amounting to 45 percent of the total project cost, at 6 percent. Chase-Manhattan Bank extended loans for another 45 percent of the project at a higher interest rate. What interest rate? That's a banking secret—but it is a higher rate.

Now, how is the loan repayed?

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The loans to the Soviet Union are for such major facilities as the $342 million Kama River truck complex which will be the largest in the world, a $44.5 million acid plant, a $36 million iron ore pellet plant and loans for $30 million for facilities for manufacturing pistons. Pending, with respect to the Soviet Union, are applications for an additional billion dollars or more in loans for such facilities as a $400 million chemical complex, a $110 million gas exploration plant and a $37 million auto component manufacturing process.

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It seems to us that all of the examples that we have quoted are easily susceptible to military use. Why should the U.S. be using the American taxpayer's money to strengthen the war machine of the Soviet Union?

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Just recently, Senator Case called attention to the fact that parts of the October, 1972 trade agreement between the U.S. and the Soviet Union had not been submitted to Congress as required by the Case Act—and that the Administration was implementing the agreement through the extension of substantial credits by the Eximbank to the Soviet Union. Senator Case asked for information both about the U.S.-Soviet agreement and about whether the Bank had received

the necessary financial information on which to make an adequate judgment as to the reliability of the loans. Neither inquiry, to our information, has received a satisfactory reply.

In response to an inquiry from Senator Schweiker, the General Accounting Office found recently that the Bank was not obeying the law in extending commercial loans to the Soviet Union. From the legislative history of the law setting up the Bank, GAO found that the President must determine that each transaction individually was in "the national interest" and submit to Congress the reasons why. The bank had been making extensions of credit to the Soviet Union under a blanket ruling by the President in October, 1972, that such transactions with the Soviet Union were in the national interest. When the Bank temporarily halted further loans to or transactions with the Soviet Union, Attorney General Saxbe found a convenient loophole: No matter what the statute said or what was the clear intent of Congress, the President could get away with the blanket approach because he had been doing it, and since Congress hadn't challenged him in the past, it couldn't challenge him now.

So the Bank has resumed its program of loans to the Soviet Union—loans at interest rates that no American homeowner, worker, or businessman can get.

No matter how you slice it, such loans are foreign aid to the Soviet Union.

Two months ago, the Bank increased its lending rate to 7 percent from 6 percent. Despite that, on March 22, 1974, the Bank reported some new loans to the Soviet Union at the 6 percent rate.

In the meantime, the prime lending rate in the U.S. has been rising. It has reached 10¼ percent and seems to be heading even higher.

Most recently the Bank has turned down a request from Senator Stevenson on March 29, 1974, that the Bank suspend all further approval of loans, guarantees and insurance involving transactions with the Soviet Union and Eastern Europe pending the completion of hearings by the Senate Subcommittee on International Finance on the Eximbank and export control policy.

We think this recent record is a clear expression of intent by the Bank to consider the interests of the Soviet Union before that of the American people.

We agree with the position set forth by H. Res. 774, which would suspend Eximbank extensions of credit to non-market-economy countries pending completion by the Senate of consideration of the trade bill. As members of this subcommittee may know, the resolution comes out of the Eximbank's continued extensions of credit to the Soviet Union and even in the wake of the overwhelming vote in favor of the Vanik amendment. To impress upon the Nixon Administration the fact that the House is opposed to these extensions of credit, Congressmen Dent and Ichord introduced this resolution, carrying 220 signatures.

We would go further than the resolution, however, and include Poland and Yugoslavia within its prohibitions. But in light of the Administration's attitude, it seems fully prepared to continue to ignore the wishes of Congress even if H. Res. 774 is adopted.

Our long-standing concern about the bank's operations however, goes well beyond loans to the Soviet Union and other Communist countries. The Bank is involved all over the world. We are concerned about the total impact of the Bank's operations which have been expanding at an accelerating pace. For example, it was just two years ago that the Export Expansion Finance Act of 1971 expanded the Bank's commitment authority from $13.5 billion to the present $20 billion. The former president of the Eximbank, Henry Kearns, reported that from 1969 to 1973, Eximbank loans rose by 117 percent from $1.1 billion to $2.4 billion; financial guarantees rose 226 percent, from $112 million to $1.5 billion; commercial bank garantees rose from $278 million to $411 million; exporter credit insurance rose by 200 percent, from $824 million to $2.5 billion and the Bank's discount program rose 786 percent from $185 million to $1.6 billion.

And we find that many of the loans by the Bank result in the export of American jobs and American technology. Indeed, the exports of America are now increasingly the entire production process—jobs, technology and capital. We are sending our industrial plants abroad, and sometimes as a result of Eximbank operations financed by U.S. taxpayers.

What's most disturbing is that the production processes and technology America is sending abroad are sophisticated, the job-generators of the future. Where U.S. exports were once plants which produced shoes, apparel and textiles, the U.S. is now sending abroad equipment and technology for electronics, computers,

aircraft, aerospace—areas in which the U.S. once predominant in the world, thus giving up American's clear competitive lead.

These exports are a "one-shot" gain for the balance of trade—but the long-term result is that this equipment and technology is used abroad to manufacture products which then flow back in the U.S. market as imports.

Serious conflict with American interests can and do arise from Bank transactions. For example, on May 11, 1973, at a time when the U.S. was facing a shortage of cotton, Eximbank helped finance the sale of raw cotton to the Bank of Tokyo in Japan. This loan took place at a time when the U.S. was suffering a substantial balance of payments deficit. The commodity was in short supply in the U.S., and domestic prices were rising. The cotton exported to Japan was to be turned into textiles—and Japanese production of textiles for import into the U.S. had already become so serious a problem that import restraints had been put on them.

The Bank never makes specific reports on the employment impact of individual loans. Bank President Casey, in recent testimony, declared that the $10.5 billion of export sales supported by the Bank in fiscal 1973 "translates into 738,000 full-time American jobs."

This glib translation leaves out the essential fact that there are fewer jobs in many manufacturing industries today—for example, in auto parts and areospace, where the Eximbank in granting and considering loans for the export of the newest equipment and technology.

This is what we mean when we say that America's industrial base is suffering serious erosion.

We firmly believe that, in light of all that we have discussed here, it is time to put specific limitations on the Bank's operations.

We urge that:

The Eximbank he brought back under the control of the federal budget, making it subject to the congressional appropriations process. Congress removed the Bank from budget control in 1971 at the request of the Administration and the Bank, leaving it free to extend credits for the promotion of exports regardless of the impact on the budget. Federal budget deficits can contribute to inflation at home and worsen America's standing abroad. The Congressional Budget Act of 1974, already passed by the Senate, brings the Eximbank and similar agencies back under the control of the budget as a class. We think that the legislative pending before this subcommittee should specifically require that Eximbank be brought back under control of the budget.

It is important to underline the need for including the Bank under the Budget because of the comments by Bank President Casey in recent testimony that the Bank is an "unusual" government agency because it provides $50 million in payments to the government each year. But according to J. Kenneth Fasick, director of the General Accounting Office's International Division, the failure to include the Eximbank in the budget "understated the (federal) deficit by about $498 million in fiscal 1973." Expanded Bank operations, as contemplated by the 50 percent increase in authorization by the Bank, could understate or overstate budgetary impact by "billions of dollars in the near future," according to GAO.

The Bank should be barred from making further loans for energy projects to the Soviet Union. We agree with the intent of H.R. 13880 introduced by Congressman Dent, to specifically forbid all U.S.-supported investment in Russian energy development programs on the ground that "if our taxpayers are going to subsidize energy development the investment should be made here, not in Siberia."

Congress should be given advance notification of each specific transaction involving the extensions of credit to Communist countries by the Eximbank. We agree with the suggestion by Comptroller General Staats in his testimony to this subcommittee that Congress should have a specified time in which to review any such transaction before it is consummated. This would, we believe, close the loophole in the law opened by the Attorney General in his recent ruling.

We would go further. We believe Congress should be given advance notification of each and every specific transaction involving the extension of credit by the Eximbank. Such advance notification should include the project's impact on U.S. employment in detail—not only of short-run job creation, but of long-run job destruction.

We would like to direct the subcommittee's attention to our statement submitted to the Senate Subcommittee on International Finance last November, and included

with this testimony as an appendix, which presents several additional questions concerning the Eximbank including:

What is the relationship between Eximbank and multinational corporations and banks?

Is Eximbank support needed for U.S. exports in the 1970's?

Is Eximbank ultimately financing more imports than exports?

Is Eximbank effectively providing subsidies or grants to huge corporations and governments which do not need them?

What is the impact of Eximbank on U.S. interest rates and money markets?

Is Eximbank helping the balance of trade and balance of payments of other countries at U.S. expense?

Who gets the benefit and who pays the costs of Eximbank risks?

How can Eximbank be made more responsive to the U.S. national interest?

So long as questions like this remain in the minds of the American people, this subcommittee—in our opinion—has the duty to conduct a fullscale examination of the Bank and its operations.

Let me turn now to H.R. 13840, a bill to extend the Export Administration Act for another three years and broaden the President's authority to regulate exports. Our basic objections go to the present Act and its administration. The AFL-CIO believes that Congress should provide more than just a simple extension with a few amendments. We believe there should be a careful study of the basic act and its administration which would provide a thorough revision of the entire measure.

The AFL-CIO has repeatedly called for effective controls on exports of farm goods, crucial raw materials and other products in short supply domestically. We have repeatedly urged effective controls on exports of American technology. As part of this, we believe that U.S. firms and their foreign subsidiaries and affiliates should provide the American government and the public with advance notification before consummation of any agreement to exchange American technology or U.S. technical data with a Communist country. We have called attention to the need for effective regulation of strategic materials. We believe that here, too, U.S. firms and their foreign subsidiaries and affiliates should provide advance notice of any transactions with a foreign nation that could affect the export of strategic materials, particularly transactions with Communist countries.

The Administration's policy has been—and continues to be—a policy of mismanagement of export regulations, or worse still, the failure to impose them.

The Administration's actions have resulted in accelerating inflation since the summer of 1972. The stepped-up pace of rising prices was touched off by the huge Russian grain deal in July of 1972. It was worsened by the official devaluations of the American dollar, which resulted in large-scale export of farm products and crude materials such as steel scrap, copper scrap, waste paper and fertilizer which are in short domestic supply.

The Administration traded off price increases for the American people and sacrificed the living standards of the American people for a temporary improvement in the balance-of-payments accounts. It failed to produce a trade surplus for manufactured goods or a workable solution to the problems of the U.S. position in the world economy.

The trade figures improved on paper, but the U.S. is left with inflationary shortages at home.

At the same time, the government's failure to regulate and curb excessive speculation and profiteering in the commodity exchanges brought tremendous increases in the spot prices of basic farm products and crude materials.

The cash spot-price of wheat, for example, was $1.60 a bushel in mid-April of 1972 and $4.03 on April 19, 1974. Soybeans went from $3.54¾ to $5.70 in the same period. Corn rose from $1.25 per bushel to $2.69½. Steel scrap soared from $35 a ton to $140. Cotton went from 38.9 cents per pound to 69.7 cents.

Such price boosts are pressing on costs and prices all along the line to the retail store and the consumer.

The AFL-CIO supports the establishment and maintenance of effective export controls on agricultural products and crude material in short supply until inflationary shortages are ended and pressures on the prices of such products subside. The federal tax subsidy for export companies—DISC—should be suspended for the export of commodities in which there are price raising supply problems. Effective government regulations of the commodity markets—including margin requirements—is needed to curb excessive price-boosting, speculating, and profiteering.

The AFL-CIO seeks adequate U.S. rsponses against new and old barriers to U.S. products raised by other nations, particularly at a time when other nations put self-protection first.

Mr. Chairman, we are not opposed to export per se. We are opposed to exports which harm the American people. We are in favor of exports which help the American people and which result in beneficial and fair trade. And we think that the Eximbank should have this as its guiding principle. Furthermore, a comprehensive export and import control act is necessary to achieve that end and should be solely administered with that end in mind.

APPENDIX

STATEMENT OF ANDREW J. BIEMILLER, DIRECTOR, DEPARTMENT OF LEGISLATION, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS, SUBMITTED TO THE SUBCOMMITTEE ON INTERNATIONAL FINANCE OF THE SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS ON S. 1890, TO EXTEND THE EXPORT-IMPORT BANK ACT, NOVEMBER 16, 1973

The AFL-CIO believes the operations of the Export-Import Bank raise new questions in the rapidly changing world economy of the 1970s. The Export-Import Bank is a U.S. government created and supported corporate agency. The Bank attempts to assist U.S. exports by providing low cost loans to borrowers from other countries and providing insurance or guarantees for export credits. S. 1890 would extend the life of the Export-Import Bank for four years and enlarge its authority for loans, insurance and guarantees from $20 billion to $30 billion—a 50% increase. Only 2 years ago the Export Expansion Finance Act of 1971 expanded the Bank's commitment authority from $13.5 billion to $20 billion and removed Eximbank's net outlays from the Federal budget. The Bank has expanded its support for exports through its loans, insurance and guarantees at an accelerating pace.

Recent world monetary and political turbulence create so much uncertainty that we respectfully request that the Committee delay action on S. 1890. In the meantime, it seems appropriate to suggest special attention to new questions of importance to the U.S. national interest.

The international environment in which Eximbank operates has changed rapidly in a comparatively short time during the 1960s and 1970s. The development of new technology and means of transportation, the use of new financial techniques, monetary upheavals and changed government economic and trade policy have altered the world scene.

The rise of multinational corporations and banks, many of them U.S.-based, has introduced an important new factor in international trade. The corporations and banks now span the globe in both developed and developing countries. Some have expanded into the Soviet Union and the Eastern Bloc countries. Operations of these corporations have contributed to the export of American jobs, technology and production facilities. The industrial base of the U.S. has been eroded, as parts of many industries, both old and new, have been exported to other countries. Many kinds of shortages now threaten the health of the U.S. economy.

Another change has been the fact that countries which were developing only a short time ago are now full-employed economies. The U.S. now imports billions in manufactured products from developing countries. The United States has been exporting food and raw materials, as well as capital equipment to these countries even though these supplies and products are needed for the healthy development of the U.S. economy.

The AFL-CIO has called for comprehensive changes in American trade and investment policies to put America's house in order. These changes require recognition of the new realities of the export of American jobs, needed raw materials and the erosion of the U.S. industrial base. While new policies are being developed the AFL-CIO has urged that the government curb the export of needed products, stop the brokering of cheap labor markets abroad and restrain the export of U.S. technology, production facilities and jobs. The AFL-CIO has urged that the United States not extend credits for the transfer of U.S. technology to the Soviet Bloc, China or the Eastern Bloc countries as if these non-market economies were merely commercial partners.

These changes and AFL–CIO policies lead us to question the role of the Eximbank at this time, what effect it actually has in a world of multinational corporations and managed national economies.

Is the Eximbank benefiting the U.S. national interest? Or is it merely accelerating the export of American jobs, technology and production facilities for the benefit of multinational corporations, banks and foreign governments at the expense of the United States?

The AFL–CIO urges an examination of the Bank's operations in the light of 10 questions related to the U.S. national interest: What is the relationship between Eximbank and multinational corporations and banks? Is Eximbank support needed for U.S. exports in the 1970s? Is Eximbank ultimately financing more imports than exports? Is Eximbank contributing to the export of American jobs? Is Eximbank effectively providing subsidies or grants to huge companies or governments which do not need them? What is the impact of Eximbank on U.S. interest rates and money markets? Is Eximbank helping the balance of payments and balance of trade of other countries at U.S. expense? What is the impact of Eximbank on the Federal Budget? Who gets the benefit and who pays the cost of Eximbank risks? How can Eximbank be made more responsive to the U.S. national interest?

What is the relationship between the Export-Import Bank and multinational firms and banks? The AFL–CIO has opposed U.S. government support for expansion of U.S. based firms abroad and urged clear reporting of the impact of Export-Import Bank activities. The multinational banks and firms that now span the globe are not mentioned in most discussions of the Export-Import Bank's activities. But the principal beneficiaries of the Bank are often among the world's largest economic giants. Some recent press releases of the Bank show that both U.S. subsidiaries and foreign operations of major corporations may be the "foreign importers" benefiting from the Bank. (Appendix 1)

In a report to the Congress, *Relending Programs Could Be Made More Effective in Promoting U.S. Exports*, in January 1973, the GAO found that only 5% of Eximbank relending credits in Brazil were used to finance sales of small and medium sized U.S. companies; 95% financed sales of large U.S. companies in the GAO sample.

Is the Export-Import Bank necessary to expand U.S. exports in the 1970s? U.S. exports are expanding because of rising foreign demand, dollar devaluation, U.S. tax policies and a variety of U.S. government agencies' efforts. Thus the Bank's support for financing is not the only reason for higher exports. The GAO has pointed out that the Eximbank has not performed an effective job of determining whether its assistance is really needed, and that borrowers have built-in incentives to seek Exim financing simply because of its low costs.

In a report to the Congress in February 1973, *Improved Management Information System Needed for Eximbank's Capital Loan Program*, the Government Accounting Office found: "Attempts to evaluate Eximbank efforts to maximize private sources of financing were hampered by lack of documentary evidence . . . Little documentation was found of Eximbank assessments of other factors essential to a sale, such as price, delivery, competition, or the availability of private financing, and the effect that these factors could have on the need for Eximbank financing to secure the sale . . .

"Although Eximbank sees its role as a lender of last resort, because its interest rate has been lower and its repayment terms longer than comparable commercial financing, borrowes tend to seek Eximbank financing as a *first* resort. Thus Eximbank's management is faced with the difficult task of deciding when its financing is essential to an export sale. (See pp. 14 and 16)"

In its Report on Relending operations concerning the Eximbank program in Brazil, the GAO made a flat finding that: "Few sales of U.S. products which would not otherwise have been made have occurred under the program."

Is the Export-Import Bank ultimately financing more U.S. imports than U.S. exports? The attached lists show that Export-Import Bank has been financing U.S. exports of manufacturing production equipment to foreign countries at a rapid pace. Equipment for textile mills, steel mills, tire plants, auto parts factories, computer technology and even stainless steel flatware manufacturing units are among types of foreign production financed with the help of Eximbank. This financing has taken place during a period when manufactured imports have been

flooding into the U.S. market—often from some of the same countries. Many of these countries have laws or regulations which require exports of the products manufactured by these facilities. While each individual export sale may appear to be a single year's plus on the balance of trade or payments, therefore, the long-run result may be displacement from imports of new products. In effect, the U.S. is exporting production capacity more than products. AFL–CIO policy has repeatedly urged an accounting of the implications of government supported activities which could hurt the U.S. economy and U.S. jobs.

For example, the Eximbank recently financed expansion of tire production and auto part production in Brazil. The U.S. has had increasing imports of tires and auto parts. Brazil requires exports of production from imported factories of foreign investors. Yet there is no precise accounting of the kinds of job displacement or production displacement made available.

In the past few years, this type of export of production has become increasingly evident in the East-West trade loans where equipment for truck production, stainless steel flatware production, tire production and other U.S. technology has been transferred with the help of Eximbank credits. The AFL–CIO opposes the extension of U.S.-government supported credits to such countries on a market-oriented commercial basis.

Is the Export-Import Bank contributing to the export of U.S. Jobs?

In the August 1973 *Monthly Labor Review*, an article, entitled "Employment and Exports 1963–73," states that the most recent Bureau of Labor Statistics estimates of jobs related to exports show that the United States had 2.9 million jobs related to exports in 1972, the same number as in 1970, even though U.S. exports have risen.

The BLS study states, "It should be noted that export employment declined in every major sector during the 1970–71 recession. Although export employment in manufacturing continued to decline slightly in 1972, all other areas recovered well by 1972, and, as noted, jobs related to exports equaled the previous high of 2.9 million set in 1970. The trend toward relatively more export employment in the agricultural sector likely will be maintained in 1973 as the United States continues grain exports to Russia and China." AFL–CIO has called attention to the loss of jobs in the United States from import displacement.

The claims of the Bank concerning job-creation are therefore, subject to question. The AFL–CIO has repeatedly called for more detailed reporting by Eximbank and all other trade-related agencies and has asked for a comprehensive trade and investment policy for the national interest of the United States.

Although the Export-Import Bank reported to this Committee that the Bank's operations create U.S. jobs, there is little factual evidence to support this claim. In the short-run, much of the job-creation claim depends on a judgment, subject to question according to GAO, that the exports would not have occurred if Eximbank had not supported the financing. No government agency has made the kind of analysis that would shed much light on the details of the job impact. In the long-run, the foreign trade policies of the United States appear to be contributing to a decline in the quality and quantity of America's job opportunities.

Is Eximbank effectively a grantor of U.S. subsidization funds to large firms and foreign countries? The GAO reports suggest that higher interest rates in the U.S. make Eximbank financing of credits at 6% a kind of "grant" to the exporter and to the foreign country. To the extent that money is not available at 6% in the United States, the Eximbank's financing has the character of a grant. With the prime rate reaching 9¾–10% in 1973, Eximbank loans clearly amounted to a grant to other countries in 1973.

The GAO stated that "Since 1965, Eximbank's interest rate on capital loans has been well below what may be considered the U.S. market rate for comparable loans and for part of the period covered in our review it was below the cost of some U.S. Treasury borrowings.

"To illustrate the grant element, we calculated the transfer of real income to the Japanese borrower and /or the seller on a $27 million loan approved in June 1970 for the purchase of two thermal power plants. The 6-percent interest on the outstanding balance of the loan is to be repaid during the second half of the 30 scheduled semiannual installment payments. Since a precise calculation of the grant element is not possible because of changing interest rates, the table below shows the grant element involved at various comparable market rates.

Comparable market rate	Grant element[1]	
	Amount	Percent to loan
7	$2,047,830	7.6
8	3,833,970	14.2
9	5,366,040	19.9
10	6,705,670	24.8

[1] The grant element in Eximbank's 6-percent rate was computed by subtracting each 6-percent interest payment from the payment that would have been made in the same period had each of the above market rates been charged then discounting eadh difference at that market rate. The differences were discounted since the payments are to be made in the future, and the value of the differefices would have been overstated had they not been discounted.

The GAO recommended that "Because of the significant amounts involved, management should carefully evaluate the essentiality of loans, especially to borrowers in Japan where the need would not appear to be as great as in other countries of the world." To this, the AFL–CIO would add a generalized concern about Eximbank's granting of any money to other countries at the expense of the U.S. economy in the 1970s.

What is the impact of Eximbank on U.S. interest rates and the U.S. money market? The GAO report's brief summary of Eximbank activities states, "Eximbank does not require appropriated funds. Its financial resources are derived mainly from (1) borrowings from the U.S. Treasury, (2) the sale of its own securities in the private market, (3) repayments of loan principal, and (4) income from operations. These financial resources are used to carry out various programs related principally to financing, guaranteeing, and insuring export transactions. . . ."

These activities—borrowings from the U.S. Treasury and the sale of its own securities in the private market—add pressures on U.S. interest rates at home, as the Eximbank borrowings compete for available U.S. funds. Thus the Eximbank not only is lending for exports to benefit exporters and foreign borrowers at a lower rate than U.S. citizens can obtain loans for domestic purposes, but the operations of Eximbank in the money market add to the pressures that have driven up U.S. interest rates for domestic borrowers.

Eximbank debentures in the private money markets have borne an interest rate of over 8%, for example, while Eximbank lending was at 6%. The Bank contends that the importance of its lending and the probability of future reduction in interest rates makes this kind of operation viable.

Is the Export-Import Bank helping the balance of trade and balance of payments position of other countries to the U.S. disadvantage? The GAO chose Japan for its case study to evaluate the Eximbank's capital loan program because "Through fiscal year 1971, it had been one of the largest recipients of Eximbank loans. These loans have been concentrated in two areas: Thermal and nuclear power plants and commercial jet aircraft. . . . Also Japan's foreign exchange reserves rose from $1.5 billion in 1964 to $16.5 billion in 1972." The GAO suggested that the U.S. was already competitive in these high technology items and queried the need of advantage of the support.

The GAO report on Improved Management Systems notes that "Eximbank needs to be selective because its financing can displace cash sales and sales financed by other sources, and the immediate balance-of-payments effect of the sale is lost." Thus, even in the short-run, the balance of payments impact may be questioned.

Similar questions should be asked about the recent extensions of credit to other countries as well as to the Soviet Union and Bloc countries. For example, Taiwan and Hong Kong have receive additional Eximbank financing while Japan has received raw cotton financing support. These countries have favorable trade balances with the U.S.

What is the impact on the Federal Budget? The GAO Report on Management Information Systems (Appendix I) states that the Export Expansion Act of 1971 "removed Eximbank's net outlays from the Federal Budget. It also exempted Eximbank from the annual expenditure and net lending limitations imposed in the Federal Budget and provided that no limitations or restraint be placed on commercial financial institution for the purpose of financing U.S. exports."

The President of Eximbank reported that from 1969–73, Eximbank loans rose 117% from $1.1 billion to $2.4 billion; financial guarantees rose 226% from $112

million to $1.5 billion; commercial bank guarantees rose from $278 million to $411 million; exporter credit insurance rose 200% from $824 million to $2.5 billion and its discount program rose 786% from $185 million to $1.6 billion.

The GAO statement by J. Kenneth Fasick, Director of GAO's International Division, to this Committee noted: "During Fiscal Year 1973, excluding the Bank's receipts and disbursements fro mthe budget understated the budgetary deficit from what it otherwise would have been by about $498 million. This amount represented a sharp increase over the approximately $145 million involved in the previous year.

"We believe that the budgetary impact of Eximbank's operations will continue to grow in the future on the basis of the expansion of the Bank's operations that has already occurred. With additional expansion planned, an overstatement of the budgetary surplus or an understatement of a budgetary deficit could easily be billions of dollars in the near future.

"In view of these developments, Congress may wish to reconsider the desirability of excluding the Export-Import Bank from budgetary control."

What has not been stated in these quotations from GAO or the Bank is that not only the Budget but also the full-faith and credit of the United States government backs these risks.

We call the Committee's attention to the experience of other programs, such as the Overseas Private Investment Corporation, where increasing risks and Federal support have led to serious questions.

Who benefits from the risks and who pays the cost? The President of Eximbank stated that "Eximbank fulfills its role by the following means:

"1. Risk-taking, such as assuming political risks that cannot appropriately be taken by the exporter or private banks are easing the impact of commercial risks."

This raises a serious question in view of S. 1890's authority to expand the Bank's already mounting commitments. The U.S. government has been assuming an ever greater share of risks by the foreign countries and private U.S. firms and banks in an increasingly unsettled world.

An article in the *New York Times* on November 11, 1973, included the following: "Despite the skepticism of some economists, politicians and diplomats about the merits of American financing for resource and industrial development in Communist countries, investment bankers are eager to establish Soviet and Chinese connections.

"If the deals are imaginatively structured (meaning they don't put up any of the money), the invesment bankers will collect their fees at the outset. If the deals turn sour, the lenders (notably commercial banks and the Export-Import Bank) and the stockholders of participating American industrial companies will be left holding the bag."

The Bank's request to remove even the 25% reserve requirement for many of its commitments therefore seems unwarranted. Further study and monitoring are needed before legislative approval of the Bank's extension of life is granted.

How can the Eximbank be made more responsive to the U.S. national interest in needed energy, raw materials and equipment for a strong industrial base?

The U.S. faces continued shortages of raw materials and energy in the 1970's. This fact requires a reassessment of the types of exports supported by the Bank to determine whether they are in the national interest. In 1973, for example, when cotton was in short supply, the Eximbank financed its 26th credit for raw cotton exports to Japan. It continues to finance future energy exports from many nations at an unknown grant and cost basis while the U.S. is seeking more self sufficiency.

The GAO report on Improved Management System concluded: "An improved management information system would aid Eximbank in judging the essentiality of its financing. Such a system would identify the financing needs of products and countries most likely to result in incremental sales, provide data for evaluating the results of its financing and accumulate documentary evidence to support its actions . . . Finally, a management tool for measuring results is needed. Although Eximbank has not established a formal measurement system, its recent studies on export financing and customer appraisal of its services could be expanded to provide management with information helpful in evaluating the effectiveness of its program."

To this AFL–CIO would add the need for better monitoring of Eximbank policies for the needs of the United States—to insure a healthy economy, a strong industrial base and for improved employment opportunities at various skill levels for all Americans.

Country	Release date[1]	Loan	Export sale	Purpose	Terms	Other financing
U.S.S.R	Oct. 1, 1973	$2,529,000	$5,620,000	250 circular knitting machines from Rockwell International of Pittsburgh to produce fabrics for shoes, play toys and lining.	6 percent, 14 semiannual installments starting February 10, 1975.	Bankers Trust, N.Y., 45 percent and Bank for Foreign Trade of U.S.S.R., 10 percent.
Yugoslavia	do	47,600	56,000	Feasibility study and engineering services for a 500 MW thermal power station (Chas. T. Main International of Boston).	6 percent, 4 semiannual installments beginning November 5, 1976.	Energoinvest of Sarajevo guaranteed by Privredna Banka.
Poland	Jul. 26, 1973	22,320,000	49,600,000	2 meat processing plants, A. Epstein Co., Inc.	6 percent, 20 semiannual installments beginning February 10, 1976.	Morgan Guaranty Trust, New York, 45 percent, Bank Handlowy w Warszawie, S.A. 10 percent, guarantee for Ex.-Im Polish People's Republic.
Do	Jul. 11, 1973	1,094,850	2,433,000	Cyber 72-14 computer system from Control Data Corp.	6 percent, 10 semiannual installments beginning October 5, 1973.	Security Pacific National Bank of Los Angeles, 45 percent Bank Handlowy w Warzszawie, S. A. 10 percent, guarantee by Government of Poland.
U.S.S.R	Mar. 21, 1973	86,450,000	225,000,000	Kama River Truck Plant (equipment to produce trucks and engines).	6 percent, 24 semiannual installments beginning Oct. 10, 1977.	Chase Manhattan, 45 percent, no guarantee from Eximbank, Vneshtorgbank, 10 percent.
Do	do	3,101,912	6,893,138	Tableware and dishware plant	6 percent, 14 semiannual installments beginning Mar. 10, 1976.	Wells Fargo Bank, 45 percent, no guarantee from Eximbank, Vneshtorgbank, 10 percent.
Do	do	Authorized, 11,671,650	25,937,000	500 electric pumping units	6 percent, 14 semiannual installments beginning Aug. 5, 1974.	Consortium headed by French American Banking Corp., no guarantee, 45 percent, Vneshtorgbank, 10 percent.
Poland	Aug. 29, 1973	13,500,000	30,000,000	Equipment for Gray Iron Foundry	6 percent, 20 semiannual installments beginning Feb. 15, 1976.	Morgan Guaranty syndicate, 45 percent, Handlowy W Warszawi S.A., 10 percent.
		567,000	1,261,000	Tape drive manufacturing equipment	6 percent, 10 semiannual installments beginning May 1, 1974.	United Bank of California, 10 percent by borrower.
Do	Sept. 24, 1973	2,680,740	5,957,200	State Foreign Trade Enterprise to purchase weaving looms to produce cotton fabrics supplied by Rockwell International of Pittsburgh.	6 percent, 14 semiannual installments beginning Nov. 5, 1974.	Another U.S. source, 45 percent, 10 percent Varimex, guaranteed by the Polish Government.
Yugoslavia	do	1,350,000	3,000,000	Oil production equipment (from division of Youngstown Sheet & Tube Co.	6 percent, 10 annual installments beginning May 5, 1975.	45 percent Continental Bank International of New York Borrower will make cash payment or $300,000.

Poland	Feb. 22, 1973	8,910,000	19,800,000	2 meat processing plants	6 percent, 20 semiannual installments beginning Aug. 10, 1973.	First National Bank of Chicago 45 percent, Bank Handlowy w Warszawie, S.A. 10 percent.
Yugoslavia	Mar. 14, 1973	5,208,000	11,574,000	Equipment for television network	6 percent, 20 semiannual installments	Bank of America, 45 percent guaranteed by Ex-Im Bank 10 percent from Yugoslavia trading companies.
Poland	Apr. 5, 1973	1,989,000	4,420,000	Steel rolling mill	6 percent, 17 semiannual installments beginning June 15, 1975.	$1,989,000 Chase Manhattan Bank 10 percent Bank Handlowy w Warszawie, S.A.
Romania	May 31, 1973	823,500	1,800,000	Synthetic rubber plant	6 percent, 10 semiannual installments beginning Feb. 5, 1976.	$823,500 Morgan Guaranty Trust Co. of New York, 10 percent guaranteed from Romchim (Romanian State Enterprise for Foreign Trade).
Do	June 18, 1973	1,763,875	4,600,000	Nuclear plant research center	6 percent, 14 semiannual installments beginning July 31, 1976.	U.S. supplier, Gulf Energy and Environmental Systems Co. of San Diego, 8.9 percent, Romenergo, 15 percent, First National City Bank (AEC will provide enriched UF6 to GEES).
Do	May 9, 1973	12,957,750	29,000,000	Tire plant (radial, etc., 1,000,000 capacity) General Tire technology, design plant layout, engineering procurement, personnel training.	6 percent, 20 semiannual installments beginning Aug. 10, 1976.	45 percent other sources, 10 percent Romchim, guaranteed by the Romanian Bank for Foreign Trade.
Yugoslavia	Oct. 12, 1973	2,687,000	5,950,000	Fiberboard plant	6 percent, 16 semiannual installments, beginning Mar. 10. 1976.	45 percent, French American Banking Corp., 10 percent, Krivaja.
Poland	June 11, 1973	696,600	1,548,000	Components for crawler tractors (International Harvester).	6 percent, semiannual, 10 installments beginning Aug. 5, 1974.	Morgan Guaranty Trust Co.
Do	May 8, 1973	2,610,000	5,800,000	Furnaces for a steel plant in Poland, 9 vacuum annealing furnaces for 50,000 ton per year silicon steel production.	6 percent, 17 semiannual installments beginning Feb. 10, 1976.	Continental Illinois National Bank and Trust Co. of Chicago 45 percent, Bank Handlowy w Warszawie S.A. 10 percent.
Yugoslavia	May 25, 1972	217,500	255,000	Feasibility study for an integrated steel plant.	6 percent, 4 semiannual installments beginning Feb. 15, 1973.	Koppers Co., Inc., Pittsburgh will put up $12,000, borrower $25,500.
Romania	Sept. 15, 1972	1,191,809	3,178,164	Offshore drilling platform equipment	6 percent, 10 semiannual installments beginning Jan. 15, 1976.	Manufacturers Hanover Trust Co. 37.5 percent, Impexmin of Bucharest 10 percent.
Yugoslavia	Dec. 4, 1972	11,250,000	25,000,000	Bor mining complex	6 percent, 10 semiannual installments beginning Feb. 15, 1979.	45 percent Girard Trust Bank of Philadelphia, Rudarski-Topionicarski Basen Bor (R.T.B. Bor) 10 percent.

[1] Information on these tables are examples from Eximbank press releases. All details are not included in each case. Some indications of various types of loans, credit guarantees and repayment guarantees have been noted. Eximbank loan usually provides 45 percent of U.S. cost at 6 percent. Eximbank may guarantee other U.S. financial support. Repayment is often guaranteed by foreign country particularly U.S.S.R. and bloc countries.

Country	Release date [1]	Export sale	Amount of loan	Purpose	Terms	Other finance	Multinational
Brazil	June 7, 1973	$2,700,000	$1,237,000	Expand pulp and paper mill	6 percent, 14 semiannual installments beginning Nov. 10, 9175.	10 percent from borrower and Eximbank guaranteed First National City Bank loan $1,237,000.	Champion International Corp. and 92 percent owned Champion Papel e Celulose, S.A.
Do	Apr. 4, 1973	1,705,000	726,250	Equipment and services for polystyrene plant.	6 percent, 12 semiannual installments beginning Aug. 10, 1975 repayment guaranteed by Dow Chemical.	10 percent from borrower, 45 percent from Bank of America. Repayment guaranteed by Dow Chemical.	Dow Chemical, U.S. and Dow Quimica subsidiary of Dow Chemical of Midland, Mich.
Mexico	Mar. 26, 1973	20,000,000	9,000,000	Equipment, material and services for terephthalate plant.	6 percent, 16 semiannual installments beginning Nov. 10, 1975.	$9,000,000 guarantee, from group headed by FNCB.	Petrocel—(Hercules Inc. "plans to hold a 40 percent interest in Petrocel).
Malaysia	Mar. 28, 1973	3,500,000	1,575,000	Goods and services for a tube and tire factory.	6 percent, 10 semiannual installments beginning Aug. 10, 1974.	10 percent Goodyear; guarantee of $1,575,000 from Morgan Guaranty Trust.	Goodyear Malaysia Berhad 51 percent owned by Goodyear Tire & Rubber.
Brazil	Jan. 4, 1973	10,000,000	4,500,000	Goods and services for fertilizer plant.	6 percent, 16 semiannual installments beginning Aug. 10, 1975.	10 percent COPEBRAS of Sao Paulo, Eximbank guaranteed loan of $4,500,000.	COPEBRAS is 70 percent owned by Cities Service Co.
Taiwan	July 10, 1972	3,900,000	1,250,000	Goods and services for polyethylene plant.	6 percent, 5 semiannual installments beginning Nov. 15, 1976.	10 percent and USI Far East Eximbank guarantee of $1,250,000 from FNCB.	USI Far East is 80 percent owned subsidiary of National Distillers and Chemical Corp.
Holland	May 22, 1972	725,000	261,000	Help finance acquisition of U.S. movie ("The Great Northfield Minnesota Raid")	6 percent, 4 semiannual installments beginning July 15, 1973.	10 percent MCA Int'l N.V. and Eximbank financial guarantee of $261,000 loan from Bank of America.	MCA International, a Dutch incorporated subsidiary of MCA, Inc.
Mexico	Sept. 29, 1972	3,368,493	1,516,000	Goods and service for expansion of tire plant in Mexico.	6 percent, 24 quarterly installments beginning Mar. 31, 1975.	10 percent General Popo $1,516,000 Chase Manhattan Bank.	General Popo (1932 established majority owned Mexican subsidiary of General Tire & Rubber, Akron, Ohio).
Venezuela	Mar. 14, 1973	3,200,000	1,440,000	Equipment and services for expansion of tire plant in Venezuela.	6 percent, 10 semiannual installments beginning Mar. 10, 1974.	10 percent C.A. Goodyear de Venezuela $1,440,000 loan from First National Bank of Boston.	Goodyear Tire & Rubber Co. of Akron, Ohio, Goodyear de Venezuela.
Brazil	May 25, 1973	1,600,000	705,000	Automotive valve making equipment.	6 percent, 10 semiannual installments beginning Sept. 5, 1974.	10 percent Eaton S.A. of Brazil. Expected loan of $705,000 from First National City Bank.	Eaton S.A. Brazil and Eaton Corp. of Cleveland, Ohio.

[1] Information on these tables are examples from Eximbank press releases. All details are not included in each case. Some indications of various types of loans, credit guarantees and repayment guarantees have been noted. Eximbank loan usually provided 45 percent of U.S. cost at 6 percent. Eximbank may guarantee other U.S. financial support. Repayment is often guaranteed by foreign country particularly U.S.S.R. and bloc countries.

Country	Release date[1]	Loan	Export sales	Purpose	Terms	Other financing
Taiwan	July 20, 1973	$576,725	$1,357,000	Textile manufacturing equipment	6 percent, 10 semiannual installments beginning Nov. 10, 1974.	Eximbank guarantee of loan for $576,725 from private U.S. sources. Repayment of all loans guaranteed by China Unit Trust & Investment Corp.
Singapore	Sept. 10, 1973	642,000	1,400,000	2 electric arc furnaces and related equipment and services for iron and steel mills.	6 percent, 14 semiannual installments beginning May 20, 1975.	Loan of $642,000 from Bank of America, 10 percent from borrower.
Turkey	Aug. 29, 1973	3,690,550	8,600,000	Textile manufacturing equipment	6 percent, 14 semiannual installments beginning Nov. 10, 1975.	Eximbank, financial guarantee of $2,222,550: North Carolina National Bank. Borrower will make cash payment out of balance of U.S. costs, $493,900.
Malaysia	Aug. 10, 1973	1,204,000	2,800,000	1,008 automatic looms, related materials and services (textile).	6 percent, 14 semiannual installments beginning Nov. 10, 1974.	$1,204,000, Chase Manhattan Bank of Kuala Lumpur Pentex Sendirian Berhad (Penang, Malaysia): borrower, $425,000.

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[Press release: Wednesday, March 21, 1973]

EXPORT-IMPORT BANK OF THE UNITED STATES

EXIMBANK AND USSR REACH AGREEMENTS FOR U.S. EXPORT SALES TOTALING $225 MILLION

The signing of a Guarantee Agreement between the Export-Import Bank of the United States and the Ministry of Foreign Trade of the Union of Soviet Socialist Republics took place today in Washington, D.C. Under this agreement, the Government of the USSR will guarantee to Eximbank the repayment of credits extended or guaranteed by Eximbank to the Bank of Foreign Trade of the USSR, (Vneshtorgbank). Signing for Eximbank was Walter C. Sauer, First Vice President and Vice Chairman, while Vladimir S. Alkhimov, Deputy Minister of the Ministry of Foreign Trade signed for the USSR.

Following this action, Mr. Sauer and A. Makeev, Deputy Chairman of Vneshtorgbank of the USSR, signed two agreements for Eximbank credits totaling $89,551,912 which will support total U.S. export sales of $199,013,138.

One of these credits was for $86,450,000 to assist in the financing of a plant to produce trucks and engines on the Kama River in the town of Naberejnaya Chelny, 550 miles east of Moscow. This amount represents 45 percent of the total costs of $192,111,000 estimated for the U.S. equipment required for the construction of the plant. Chase Manhattan Bank of New York will provide another $86,450,000, also 45 percent of the U.S. sales, without an Eximbank guarantee. Signing this agreement for Chase Manhattan was A. R. Wentworth, Senior Vice President. Vneshtorgbank will make a cash payment of 10 percent or $19,211,000. The loans are to be repaid in 24 semiannual installments beginning October 10, 1977 with Eximbank's direct loan to be repaid out of the last 12 installments.

The second Eximbank credit signed today was for $3,101,912 to finance 45 percent of the U.S. equipment and services valued at $6,893,138 to be purchased for the construction of a plant which will produce tableware and dishware for consumer use. Wells Fargo Bank of San Francisco, will finance another 45 percent or $3,101,912, without an Eximbank guarantee. Signing for Wells Fargo Bank was Samuel A. Costanzo, Vice President. A 10 percent cash payment of $689,314 will be made by Vneshtorgbank. Repayments will be made in 20 semiannual installments beginning March 10, 1976, with Eximbank's credit to be repaid out of the last 10 installments.

After the signing of the Guarantee Agreement and of the two Eximbank credits had been completed, Vice Chairman Sauer announced the authorization by Eximbank's Board of Directors of a third credit to the Bank for Foreign Trade of the USSR. Expected to be signed on Friday of this week, the $11,671,650 credit will finance 45 percent of $25,937,000 in U.S. sales of 500 submersible electric pumping units to Machinoimport, a USSR importing firm. The French American Banking Corporation will head a consortium of seven U.S. banks in extending a loan of the same amount to finance another 45 percent without an Eximbank guarantee. The other six banks are Industrial National Bank of Rhode Island, Indiana National Bank (Indianapolis), Hartford National Bank and Trust Company, First National Bank of Memphis, Capital National Bank (Houston), and First Wisconsin National Bank of Milwaukee. A cash payment of 10 percent or $2,593,700 will be made by Vneshtorgbank.

The repayment schedule of 14 semiannual installments will begin August 5, 1974, and will provide for Eximbank's direct loan to be repaid out of the last 7 installments.

Interest on all Eximbank credits to the Bank for Foreign Trade of the USSR will be repaid at an annual rate of 6 percent on outstanding balances. Repayment is to be guaranteed under the Guarantee Agreement signed today by the Government of the Union of the Soviet Socialist Republics.

[Press release: March 22, 1974]

EXIMBANK'S CHAIRMAN ANNOUNCES ACTION BY THE BOARD OF DIRECTORS ON CREDITS TO POLAND, ROMANIA, U.S.S.R., AND YUGOSLAVIA

William J. Casey. Chairman and President of the Export-Import Bank of the United States announced today that the Bank's Board of Directors has resumed

its normal processing of credits to Poland, Romania, U.S.S.R., and Yugoslavia. Eximbank had suspended action on credits to these countries on March 11 in order to study and receive advice on an opinion of the Comptroller General of the United States to the effect that each individual transaction involving these countries had to be the subject of a finding by the President that such transaction was inthe national interest. Since 1964, Eximbank has been making loans and issuing guarantees and insurance to these countries pursuant to determinations made at various times by Presidents Johnson and Nixon that it would be in the national interest for Eximbank to facilitate exports to these particular countries.

In resuming action on transactions involving these four countries, the Bank acted on the opinion of its General Counsel, and a concurring opinion which the Attorney General submitted to the President on March 21, 1974.

Mr. Casey also announced that he had signed two Agreements that had been delayed for Eximbank credits to Yugoslavia in support of sales of jet aircraft to JAT, the Yugoslavian Airline.

In addition, authorizations for two credits to Romania, four credits to Poland, four credits to the U.S.S.R. and one credit to Yugoslavia have been approved by the Bank's Board of Directors.

Eximbank's credits total $73,692,165, in support of sales of U.S. goods and services totaling $163,760,366.

The first of four credits extended to Poland was in support of a $43,759,000 sale of U.S. goods and services required for establishing a copper and brass processing facility in Poland. Direct credit of $19,691,550 will finance 45 percent of the total U.S. purchases. Chase Manhattan Bank, New York, will also extend financing of $19,691,550 to finance another 45 percent of the U.S. costs. The obligor, Bank Handlowy w Warszawie, S.A. (Handlobank), will make cash payment of the balance of the U.S. costs of 10 percent or $4,375,900.

The project is for design, construction and equipping of a new copper and brass facility to be located in Katowice about 175 miles south southwest of Warsaw. Centrozap, a Polish foreign trading organization, has a contract with Waterbury Farrel of Cheshire, Connecticut, a division of Textron, for engineering, technical assistance and furnishing equipment for the new plant. Chase Brass & Copper Company of Shaker Heights, Ohio, will provide technology and technical services relative to the project.

The loans are to be repaid in 20 semi-annual installments beginning February 20, 1977, with Eximbank's direct loan of $19,691,550 to be repaid out of the last 10 installments with interest at an annual rate of 6 percent on outstanding balances. Repayment of Eximbank's loan is to be guaranteed by the Government of the Polish People's Republic.

A second credit will help finance a $1,725,000 sale of U.S. goods and services required for a tire plant in Poland, the Board of Directors of the Export-Import Bank of the United States has authorized a direct credit of $776,250 to finance 45 percent of the U.S. costs. A loan of $776,250 from Manufacturers Hanover Trust Company, New York, will also finance 45 percent of the total U.S. costs. The borrower, Bank Handlowy w Warszawie, S.A. (Handlobank), will make cash payment of the balance of the U.S. costs of 10 percent or $172.500.

The project is for the construction of a new tire plant alongside of an existing one. The new plant is expected to have an initial annual capacity of nearly 2 million radial ply steel belted passenger car tires.

Uniroyal S.A. of France, a subsidiary of Uniroyal U.S.A. will be the prime contractor to provide the plant layout, engineering, manufacturing technology, and most of the machinery.

The loans are to be repaid in 10 semiannual installments beginning July 15, 1976, with Eximbank's direct loan of $776,250 to be repaid out of the last 5 installments with interest at an annual rate of 7 percent on outstanding balances. Repayment of Eximbank's loan is to be guaranteed by the Government of the Polish People's Republic.

Eximbank's third direct credit to Poland of $879,420 will finance 45 percent of the total U.S. costs of $1,954,266 for textile equipment to Poland. A credit of $879,420 from private sources not yet designated will finance another 45 percent of the U.S. costs. The obligor, Bank Handlowy w Warszawie, S.A. (Handlobank), will make cash payment of the balance of 10 percent or $195,426.

The textile equipment, to be purchased in the U.S. from Leesona Corporation of Warwick, Rhode Island, are Uniconers which are used for rewinding and cleaning different kinds of cotton yarns. Varimex of Poland will be the end user.

The loans are to be repaid in 10 semiannual installments beginning January 5, 1975, with Eximbank's direct credit of $879,420 to be repaid out of the last 5 installments with interest at an annual rate of 6 percent on outstanding balances. Repayment of Eximbank's loan is to be guaranteed by the Polish People's Republic.

Eximbank's fourth credit of $1,236,585 will finance 45 percent of the total U.S. costs of one Cyber 72–16 computer system costing $2,747,967 to Poland. Bankers Trust Company, New York will also provide a credit of $1,236,585 to finance another 45 percent. The obligor, Bank Handlowy w Warszawie, S.A. (Handlobank), will make cash payment of the balance of 10 percent of $274,797.

The computer equipment, to be supplied by Control Data Corporation, Minneapolis, Minnesota, will be for the use of the Krakow High Schools and Scientific Institutes.

The loans are to be repaid in 10 semiannual installments beginning May 5, 1975, with Exaimbank's direct loan of $1,236,585 to be repaid out of the last 5 installments with interest at an annual rate of 6 percent on outstanding balances. Repayment of Eximbank's loan is to be guaranteed by the Polish People's Republic.

To help finance a $1,746,000 sale of U.S. equipment, spare parts and services for an engine bearing and bushing production line in Romania, Eximbank's Board authorized a direct loan of $785,700 to finance 45 percent of the total U.S. costs. Irving Trust Company of New York will provide a credit of $785,700 to finance another 45 percent of the costs. The obligor, Uzinexportimport of Romania, will make cash payment of 10 percent of the U.S. costs of $174,600.

The project is for an engine components unit designed and equipped to produce 8.7 million engine bearings and bushings per year for use in tractors, trucks, and industrial machinery.

DAB Industries, Inc. of Detroit, Michigan, the largest independent engine bearing manufacturer in the U.S. was chosen to provide proprietary high production machinery, plant design and layout, advanced bimetallic bearing technology, certain ancillary tooling and spare parts for the project. This award was a culmination of negotiations started in May 1971. Deliveries are expected to begin in August 1974 and be completed in 1976.

Eximbank's direct loan of $785,700 is to be repaid in five semi-annual installments beginning October 15, 1978, with interest at an annual rate of 6 percent on outstanding balances. Repayment of the loan is to be guaranteed by The Romanian Bank for Foreign Trade.

Eximbank's second direct loan of $368,100 to Romania will finance 45 percent of the total U.S. costs of $818,000 for welding machines, spare and wear parts, and technical assistance to Romania. Manufacturers Hanover Trust Company, New York, will also provide a credit of $368,100 to finance another 45 percent. The obligor, METAROM, the Romanian State Company for Foreign Trade, will make cash payment of the balance of the U.S. costs of 10 percent or $81,800.

The machines are for welding silicon steel strips. Wean United of Pittsburgh, Pennsylvania, is the supplier for the welding units which are scheduled for delivery by March 1975.

Repayment of the loans is to be made in 10 semi-annual installments beginning October 5, 1975, with Eximbank's direct loan of $368,100 to be repaid out of the last 5 installments with interest at an annual rate of 6 percent on outstanding balances and repayment to be guaranteed by the Romanian Bank for Foreign Trade.

The first of four credits for the U.S.S.R. authorized by Eximbank's Board of Directors today was to finance 45 percent of the total U.S. costs of $7,458,100 for equipment required for a transfer line for machine flywheels in the U.S.S.R. A credit of $3,356,145 from private sources not yet designated will finance another 45 percent of the total U.S. costs. The obligor, The Bank for Foreign Trade of the U.S.S.R. will make cash payment of the balance of the U.S. costs of 10 percent or $745,810.

The project is for the establishment and equipping of a transfer line for machine flywheels for use in the Ufa Motor Works, Ufa, Bashkirskoy ASSR. The flywheels will eventually go into the Moskovitch 412 passenger cars. The flywheel line will be provided by Giddings & Lewis, Fond du lac, Wisconsin.

The loans are to be repaid in 14 semiannual installments beginning August 20, 1976, with Eximbank's direct loan of $3,356,145 to be repaid out of the last 7 installments with interest at an annual rate of 6 percent on outstanding

balances. Repayment of all loans is to be guaranteed by the Government of the Union of Soviet Socialist Republics.

The second USSR credit of $2,970,000 will finance 45 percent of the total U.S. costs of $6,600,000 for equipment to be used in canal lining construction in the USSR. A credit of $2,970,000 from private sources not yet designated will finance another 45 percent of the U.S. costs. The Bank for Foreign Trade of the U.S.S.R. will make cash payment of the balance of 10 percent or $660,000.

Proceeds of the loans will be used by Traktoroexport to purchase canal lining machinery for the Ministry of Irrigation of the USSR. The prime suppliers of the equipment will be R. A. Hanson Disc Ltd., of Spokane, Washington, and International Harvester Export Company, Chicago, Illinois.

The loans are to be repaid in 10 semiannual installments beginning December 15, 1975, with Eximbank's direct loan of $2,970,000 to be repaid out of the last 5 installments, with interest at an annual rate of 6 percent on outstanding balances and repayments to be guaranteed by the Government of the Union of Soviet Socialist Republics.

Another Eximbank credit for $2,115,000 will finance 45 percent of the total U.S. costs of $4.7 million for valve-making machinery and equipment for the petrochemical industry. A credit of $2,115,000 from private sources not yet designated will finance another 45 percent of the U.S. costs. The bank for Foreign Trade of the U.S.S.R. will make cash payment of the balance of the U.S. costs of 10 percent or $470,000.

Kingsbury Machine Tool Corporation of Keene, New Hampshire, will enter into a contract with Stankoimport to provide these machines, together with appropriate sets of cutting tools for use by Kroveletsky and Zaporojske Valve Works in the U.S.S.R.

The loans are to be repaid in 10 semiannual installments beginning December 15, 1976, with Eximbank's direct loan of $2,115,000 to be repaid out of the last 5 installments with interest at an annual rate of 6 percent on outstanding balances and repayment to be guaranteed by the Government of the Union of Soviet Socialist Republic.

The fourth Eximbank authorization to the USSR was for $36 million which will finance 45 percent of the U.S. costs of $80 million for goods and services required for the construction and equipping of a center for international trade in Moscow. A credit of $36 million; from Chase Manhattan Bank, New York, will finance another 45 percent of the U.S. costs and Bank for Foreign Trade of the U.S.S.R. will make cash payment of the balance of 10 percent of $8 million.

Current plans for the Center include offices to house some 1200 employees, a 600-room hotel, with restaurants, and entertainment rooms, 625 residential quarters with from one to four-room flats, conference halls, exhibition pavilion, a garage, and athletic and recreational facilities. The center will be equipped with technological and communication equipment required for the processing of trade, economic and scientific information. Total cost of the Center is estimated at $110 million.

The loans are to be repaid in 20 semiannual installments beginning July 10, 1979, with Eximbank's direct credit of $36 million to be repaid out of the last 10 installments, with interest at an annual rate of 6 percent on outstanding balances and repayment to be guarantted by the Government of the Union of Soviet Socialist Republics.

A direct credit of $6,750,000 was authorized to finance 45% of a $15 million sale of two used Boeing 707 jet aircraft with related goods and services to Yugoslavia. Eximbank also guaranteed a loan of $6,750,000 from United California Bank International to finance another 45 percent of the total U.S. costs. The borrow, Jugoslovenski Aerotransport (JAT) of Yugoslavia, will make cash payment of the balance of $1.5 million. The Agreement for this credit was one of those signed for the Bank today by Chairman Casey.

JAT will purchase the aircraft from Northwest Airlines and delivery is expected in April 1974.

The loans are to be repaid in 14 semiannual installments beginning October 10, 1974, with Eximbank's direct loan of $6,750,000 to be repaid out of the last 7 installments with interest at an annual rate of 7 percent on outstanding balances. Repayment of all loans is to be guaranteed by The Yugoslav Investment Bank, and The National Bank of Yugoslavia.

Mr. ASHLEY. Thank you very much, Mr. Biemiller, for certainly a very provocative and thorough statement.

Because of the call to the House, it will be necessary, unfortunately, for members to submit their questions in writing. It will not be possible for us to come back between now and 2 o'clock, when we have other witnesses scheduled. So with your indulgence, sir, we will proceed on that basis.

Mr. BIEMILLER. We will be very happy to answer any questions that the subcommittee members may have.

Mr. ASHLEY. The subcommittee will stand in recess until 2 o'clock this afternoon.

[Whereupon, at 12:20 p.m., the subcommittee recessed, to reconvene at 2 o'clock the same day.]

AFTERNOON SESSION

Mr. ASHLEY. The subcommittee will come to order.

Gentlemen, I should advise you that the House has before it this afternoon several items of legislative business of some considerable importance to various members of the Subcommittee on International Trade. There are other subcommittee meetings this afternoon, as well, some of which command the presence of colleagues of mine on this subcommittee. The fundamental importance of taking testimony is to establish a record, and I can assure you that it is a record from which the subcommittee proceeds, on which basis the subcommittee arrives at its decisions and shapes the legislation which is taken to the floor. The challenges that any legislation encounters when it reaches the floor simply must have the kind of bedrock foundation in the way of testimony, in the way of actual data, that can only be supplied from the hearings record.

I am sure you understand that, and I emphasize it because you have all come a long way. Your remarks will be directed and are being directed to many others.

At this point in the record we will insert a statement of Congressman Charles J. Carney, a Member of Congress from the State of Ohio.

[The prepared statement of the Honorable Charles J. Carney follows:]

STATEMENT OF HON. CHARLES J. CARNEY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. Chairman, I appreciate this opportunity to present testimony in support of my bill, H.R. 13763, to control ferrous scrap exports. Specifically, H.R. 13763 would limit iron and steel scrap exports from the United States to 6 million tons annually over the next three-year period. The 6 million tons would be allocated to each country based on the quantity it received from the United States during 1971 and 1972.

Mr. Chairman, the need for effective controls on ferrous scrap exports is clearly demonstrated by recent experience. In 1973, the amount of ferrous scrap exported by the United States reached an all-time high of 11.3 million tons, compared to an average of 7.4 million tons during the preceding ten-year period. While the United States was exporting more than 11 million tons of ferrous scrap, the Common Market countries of Western Europe were exporting a meager four hundred thousand tons of scrap.

The present scrap export policy has created a shortage of iron and steel scrap in this country. As a result, the price of ferrous scrap has soared from approximately $45 per ton in January, 1973, to $175 per ton in April, 1974. These inflated

ferrous scrap prices are felt in the form of higher prices for many other iron and steel products.

Mr. Chairman, all the other industrial nations of the world make sure that their own ferrous scrap needs are met before any scrap is exported. The United States stands alone in permitting the wholesale export of this precious commodity in the face of domestic shortages and rising prices. Unless Congress establishes effective controls on ferrous scrap exports now, steel production soon will be disrupted. With domestic steel production stagnated, a severe economic recession will be inevitable.

Mr. Chairman, a temporary quota on ferrous scrap exports is a reasonable and realistic national policy under existing conditions of high foreign demand and depleted domestic supplies. Indeed, such a policy is absolutely necessary to combat inflation and unemployment. Therefore, I strongly recommend that the subcommittee favorably report H.R. 13763 to the full committee without delay.

Thank you very much.

Mr. ASHLEY. I am reminded that I should in many respects welcome you gentlemen back because it was just 13 months ago this subcommittee took testimony from some of the same associations on the issues to be discussed this afternoon. In the hearings of March 23, 1973, for example, it was indicated, and I am quoting that:

> There is a very serious reverse twist on the international price of commodities related to the dollar devaluation, and at the present time there is a rush for commodities of all kinds, particularly metals, including scrap metal. So as the dollar weakens abroad, there is a tendency to try to buy more commodities, and that accelerates our commodity price increases at home.

I am sure that all of you are aware of the action taken by this subcommittee, the full committee and by the House of Representatives last year. In the absence of subsequent action by the Senate on the legislation which I introduced, and as a consequence of the kind of export control program which the Commerce Department has carried on until now, it can certainly be said that the situation with respect to domestic supply for the price of scrap has gone far beyond that which anyone dared to express a little more than a year ago.

Without further comment, I will call on our first witness, Stewart S. Cort, chairman of Bethlehem Steel Corp., testifying for the American Iron and Steel Institute. Mr. Cort is accompanied by William Stapleton, vice president of Inland Steel in Chicago, and James Morrill, president of Continental Steel, Kokomo, Ind.

Gentlemen, we are pleased to have you here. Mr. Cort, if you will please proceed.

STATEMENT OF STEWART S. CORT, CHAIRMAN OF BETHLEHEM STEEL CORP., ON BEHALF OF THE AMERICAN IRON AND STEEL INSTITUTE; ACCOMPANIED BY WILLIAM STAPLETON, VICE PRESIDENT OF INLAND STEEL CORP.; AND JAMES MORRILL, PRESIDENT OF CONTINENTAL STEEL

Mr. CORT. To manufacture the steel products necessary to the operation of the U.S. economy——

Mr. ASHLEY. Excuse me, Mr. Cort. It is clear, I think, that we have six witnesses.

Gentlemen, I would ask that you try to respect the time limitations somewhere in the neighborhood of 12 to 15 minutes. Hopefully this would give us time to hear everybody and proceed with questions as time permits.

Excuse me, Mr. Cort. Please proceed, sir.

Mr. CORT. To manufacture steel products necessary to the operation of the U.S. economy, domestic steel producers require several basic raw materials which are in increasingly short supply. With respect to two of our most essential raw materials—ferrous scrap and metallurgical coal—the supply situation has become critical.

The national interest would be poorly served if the United States does not possess the authority to prevent unlimited exports of such materials in which we are in short supply.

Accordingly, the steel industry strongly supports the Congressional Declaration of Policy contained in section 3, paragraph (2) of the Export Administration Act of 1969, as follows:

> It is the policy of the United States to use export controls (a) to the extent necessary to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of abnormal foreign demand.

Although the act clearly describes the intent of the Congress, it seems to me that our current experience with export controls does not reflect the clear congressional intent to prevent damage to the domestic economy from a drain of scarce materials.

As to bituminous coal, it will play a greatly expanded role in our national energy picture in future years. However, the United States does not have the physical capacity or manpower resources to produce coal in sufficient volume to satisfy current demand from its normal domestic and export markets, let alone a demand magnified by the enforced substitution of coal for natural gas and petroleum products. In 1973, domestic consumption of 556 million tons of bituminous coal and lignite combined with exports of 52 million tons, exceeded by 13 million tons, the 595 million tons of U.S. coal production.

The steel industry has recommended to Government agencies that a temporary licensing program on bituminous coal exports, excluding those to Canada and Mexico, be put into effect immediately as a mechanism for measuring the level and scope of foreign demand for U.S. coal in 1974. We have also urged the Federal agencies involved to determine an acceptable level of coal exports in 1974 and make it known to our normal foreign customers. This procedure is certainly preferable to one which attempts to cut back exports after they have been permitted to reach abnormally high levels.

Ferrous scrap constitutes almost one-half of our metallic input and is a vital component of steelmaking. Inventories of ferrous scrap have shrunk to their lowest level since World War II. A confirming evidence of shortages of scrap, especially in essential grades, scrap prices have soared 200 percent above 1972 averages.

This has had an enormous cost impact on the steel industry. For example, if a ferrous scrap price increase of $100 per ton is maintained throughout the year, it would result in additional costs to the steel industry of almost $4 billion—38 million tons of purchased scrap times $100—an amount equal to about 28 percent of our 1973 cost of purchased materials and services.

The situation has not improved in 1974 to date. Exports of ferrous scrap in January and February aggregated 1,743,000 tons, the highest on record for any such 2-month period. Conversely, deliveries of purchased ferrous scrap to mills and foundries in January and February

were more than 20 percent below domestic requirements, resulting in a 900,000-ton depletion of consumer scrap inventories.

Nevertheless, despite the January-February experience, the Commerce Department extended to June 30, 1974, its export licensing program of 700,000 tons per month, a clearly excessive amount.

Based on its analysis of rising domestic and world steel demand, the steel industry warned the executive branch in December 1972, that a serious scrap shortage would develop in 1973. The industry recommended that an export control program be implemented immediately to limit exports to their normal level of 600,000 tons monthly or 7.2 million tons annually. Subsequent meetings between Government officials and industry representatives were held at frequent intervals to no avail, despite a near doubling of exports in the January–June 1973 period over export levels which occurred in most of the prior decade.

The Government did not act until July 1973 and then it took only limited action. It was a case of too little and too late. When the books closed last year, 11.3 million tons had gone to export, badly depleting available domestic stocks. To grasp the impact of high exports on domestic supply, consider this: Last year, 5.3 million additional tons of ferrous scrap were added to the U.S. supply. Yet, of this increase, 3.9 million tons went abroad in exports, leaving only 1.4 million tons for domestic use, increasing total domestic purchased scrap by only 3.4 percent, during a year when steel industry production was up 13.1 percent.

Unless the Federal Government acts now to further limit exports of iron and steel scrap, steel mills and foundries in the United States will incur additional disruptions in their production scheduling, at a time when domestic demand for iron and steel continues at the highest level in history, and shortages of many steel products persist.

For well over a year, the industry's warnings have been answered with inadequate measures. As a result, the crisis has so deepened that only strong measures will not suffice.

The steel industry, with the support of the United Steelworkers Union and foundry companies, is asking that present scrap exports, currently authorized at a monthly rate of 700,000 tons—annual rate of 8.4 million tons—be further reduced to alleviate the scrap shortage. Specifically, the industry urges that Congress support the following actions previously requested of the U.S. Department of Commerce:

One, that the Commerce Department impose an embargo on exports of carbon, alloy, and stainless ferrous scrap of sufficient duration to insure an adequate supply for domestic consumers;

Two, that as a minimum alternative, the Department stop issuing new export licenses, except for Canada and Mexico, for a period sufficient to insure an adequate domestic supply;

Three, that the embargo be followed by a program limiting scrap exports to a maximum of 300,000 net tons a month for the rest of 1974.

Without these related measures, there is little hope that the overall supply-demand situation will improve. Thus we urge further Government action on scrap exports until a reasonable degree of order can be restored to the scrap market.

Consider the scrap export control policies of Japan and the Western European nations. Japan does not export ferrous scrap. Except when

home demand is low, the Western European nations forbid or, at best, allow only minimal exports of scrap.

Last year, for example, scrap exports out of the European Economic Community—a steel market comparable to our own in size—approximated only 400,000 tons, compared with the 11.3 million tons exported by the United States. The European Community still operates according to a 1953 decision prohibiting scrap exports to third countries, although the decision has since been modified several times in response to changing conditions.

As worldwide demand was soaring, Britain—which is traditionally a net exporter of scrap—in September 1972 imposed an embargo closing off its exports of ferrous scrap except for a few low-quality grades. The United Kingdom embargo is enforced even against the European Community of which the United Kingdom is now a member.

Just a few days ago the Canadian Government announced new controls on the export of scrap iron and steel. Export permits will be limited to 1973 levels and will even require evidence of refusal to purchase such scrap by Canadian customers.

Thus, while other industrial countries assure their own needs for ferrous scrap, the United States alone permits massive and unprecedented exports of this essential commodity. In doing so, it has, among other things, put its own steelmakers and foundries at an unfair disadvantage.

Certainly, in line with America's new realization that raw materials are in finite supply, Government on the one hand and concerned industries on the other should develop long-term programs for scrap recovery. But longer term programs cannot answer the immediate need to maintain production operations. It is to this need that the steel industry points in asking for effective action to curtail ferrous scrap exports.

In seeking enactment of a bill strengthening the President's authority to impose export controls in short-supply situations, the steel industry supports an amendment to the act permitting imposition of export controls whenever foreign demand causes either excessive drain on scarce materials or serious inflation.

We also recommended deletion of the word "abnormal" before the phrase "foreign demand." Thus the act would declare it to be the policy of the United States to use export controls "to the extent necessary to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of (abnormal) foreign demand.

We further recommend an amendment to the act which would establish a monitoring program for volatile commodities, together with export controls on such commodities. We define volatile commodities as nonagricultural commodities whose supply can move rapidly into deficit, causing an inflationary impact, and which previously have had licensing and export limitations imposed upon them pursuant to the Export Administration Act of 1969.

We also urge this subcommittee to incorporate language in the legislative history of the act emphasizing that the threat of a drain of scarce materials or a serious inflationary impact of foreign demand is sufficient to justify imposition of export controls. Taken together,

adoption of these proposals should significantly increase the efficacy of the Export Administration Act in short-supply situations.

With your concurrence, Mr. Chairman, we are submitting our legislative proposals on the Export Administration Act for inclusion in the record of this hearing. We shall be glad to discuss them in detail with members and staff of this subcommittee.

Thank you.

[The legislative proposals to the Export Administration Act referred to by Mr. Cort, follows:]

Proposed Amendments to the Export Administration Act of 1969

Amendment No. 1: Amend Section 2 to add the following new paragraphs after paragraph (4):

(5) Although the Export Administration Act of 1969 adopted a policy of using export controls where necessary to protect against an excessive drain of scarce materials and serious inflation resulting from abnormal foreign demand these statutory objectives have not been fully achieved.

(6) An excessive drain of scarce materials and serious inflation resulting from foreign demand has, and threatens to continue to have, an impact on our economy.

(7) Export authority, while requiring flexibility to anticipate and respond to changing circumstances, must also be sufficiently clear and mandatory to assure compliance in the fulfillment of national policy.

(8) The unrestricted export of natural raw materials or recyclable raw materials, without regard to domestic needs, adversely affects employment, production and price stability in the American economy.

Amendment No. 2: Amend Section 3(2)(A) by substituting the word "or" for the word "and" following the word "materials" and by deleting the word "abnormal" before the words "foreign demand".

Amendment No. 3: Amend Section 3 by renumbering paragraphs (3) through (6) as (4) through (7) and by adding the following new paragraph after paragraph (2):

(3) It is the policy of the United States to use export controls (A) to formulate the necessary controls for information gathering, reporting, and analysis of data to enable a continuous monitoring of volatile commodities, and (B) to formulate regulations setting out the amounts and grades of volatile commodities that may be exported during each year or fraction thereof without contributing to an excessive drain of scarce materials or a serious inflationary impact of foreign demand. For purposes of this Act, the term "volatile commodities" shall mean those commodities (except agricultural commodities) which previously have had licensing and export limitations imposed upon them pursuant to the policy declared in Section 3(2)(A) of the Export Administration Act of 1969 or any non-agricultural commodities which the Secretary determines need to be regulated under provisions of this section to insure adequate domestic supply.

Amendment No. 4: Amend Section 4(c) to read as follows:

(c) Nothing in this Act or in the rules and regulations authorized by it, shall in any way be construed to require authority and permission to export articles, materials, supplies, data, or information except where the national security, the foreign policy of the United States, or the need to protect the domestic economy from the excessive drain of scare materials, to reduce the serious inflationary impact of foreign demand, or to control the export of volatile commodities makes such requirement necessary.

Amendment No. 5: Amend Section 5(c) by renumbering paragraphs (2) through (4) as (3) through (5) and by adding the following new paragraph after paragraph (1):

(2) The Secretary of Commerce shall appoint a technical advisory committee fo rany grouping of such materials or commodities deterined to be
mittee for any grouping of such materials or commodities determined to be volatile commodities under Section 3(3) of this Act to evaluate technical matters, licensing procedures, reporting requirements, worldwide availability,

actual use of domestic production facilities and technology, and to advise the Secretary in the formulation of regulations for such commodities. Each such committee shall consist of representatives of United States industry and government.

Amendment No. 6: Amend Section 5(c)(3) (as renumbered by Amendment No. 5) by substituting the words "paragraphs (1) and (2)" for the words "paragraph (1)".

Mr. ASHLEY. Thank you, Mr. Cort, for a very impressive statement.

Our next witness is Charles T. Sheehan, vice president of government affairs, Cast Metals Federation. Mr. Sheehan, please proceed, sir.

Mr. HEFFERNAN. Mr. Sheehan, if he could, would like to follow me, if that would meet with your approval.

Mr. ASHLEY. Then our next witness is Edward D. Heffernan, director of Washington affairs, Cast Iron Pipe Research Association. If you will proceed, Mr. Heffernan.

STATEMENT OF EDWARD D. HEFFERNAN, DIRECTOR OF WASHINGTON AFFAIRS, CAST IRON PIPE RESEARCH ASSOCIATION

Mr. HEFFERNAN. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, I represent the Cast Iron Pipe Research Association, a national trade association of manufacturers of cast and ductile iron pressure pipe. We operate pipe foundries and employ more than 15,000 people, with a high percentage of minorities represented. These foundries are located in nine States—Alabama, California, Illinois, Ohio, New Jersey, Tennessee, Texas, Utah, and Virginia.

In the brief time available, Mr. Chairman, I would like to depart from the prepared statement that I have and focus attention on several aspects of the ferrous metal problem and its relationship to the overall responsibility you have in legislating export controls.

In this regard, if you are following my prepared statement, I will pick up somewhere on page 10 and do some summarizing.

I believe the administration's record in failing to prevent shortage and inflation from abnormal foreign demand for scrap metal is so clear it is not necessary to belabor the point any further. Our lengthy testimony, which I have asked permission to submit for the record, contains detailed review of efforts to obtain action and the administration's response. Suffice it to say that the administration at first ignored our projections and warnings; second, they contended they had not the authority to act; finally, as the problem persisted and worsened, they acknowledged their authority, but took cosmetic rather than substantive steps, thereby assuring a further worsening and the need for drastic action.

What does need to be aired, Mr. Chairman, is why the administration is reluctant to act.

Why did the administration suffer severe injury to the domestic iron and steel industry and a devastating inflationary impact on the American consumer as a result of passthrough scrap metal prices that increased 280 percent in 1 year?

It became apparent that the administration views the use or nonuse of export control authority as an instrument of its foreign policy. Re-

peatedly, administration officials have made reference to foreign policy commitments in telling industry representatives that exports would not be further restricted. But at no time has there been any real explanation of policy.

We would like to know what the overriding foreign policy commitment is that has a higher priority than the health of these basic industries and freedom from inflation for our people. Perhaps there is such a valid priority. We believe we have a right to know what it is.

Mr. Chairman, I would quickly add that we have no expertise in this area of foreign policy—we are reluctant, really, to raise it—but we have concluded that it is central to any meaningful discussion of ferrous scrap metal export controls.

Many questions in this area come to mind that ought to be considered in the dialog before this subcommittee relative to extending the authority to impose or not impose export controls.

Why is the United States virtually the only country supplying any significant quantities of ferrous scrap metal during this period of international shortage?

Phrased another way—why is the United States so sensitive as to allow injury to its own economy and iron and steel industry rather than cut down exports when all other comparable foreign steel markets that generate substantial scrap cut off exports with hardly a second thought?

Recently, the Japanese have taken around 50 percent of all U.S. exports of ferrous scrap.

Have special agreements been entered into to assure the Japanese the increased amounts of U.S. scrap that they have been receiving from us?

If there have been such agreements, what is the rationale, and are there reciprocal agreements to curtail the scrap returning in the form of finished iron and steel imports to the United States?

If there are no special agreements, could we have the reasoning for allowing more than double the amount of exports of scrap in 1973 over 1972 to Japan at a time when domestic need was setting alltime records and when the price to U.S. consumers increased 280 percent?

If the United States is reluctant to impose barriers on exports in the broad interest of establishing a free-trading international market, how long do we wait for some other countries to join us?

We believe it is timely for this subcommittee to ask the administration to spell out the policy intentions in this area.

How can U.S. mill and foundry businessmen adequately plan for growth and conscientiously divert income to capital investment when they do not know if their own Government can or will assure them priority use of our own domestically produced raw materials?

Further, we believe it is this subcommittee's responsibility to examine all facets of this complex problem of export policy. Otherwise it is a charade and a waste of your time for us to come repeatedly before you and outline the existence of conditions that meet the criteria for imposing export controls while all the while those in authority fully realize the conditions, but are overlooking them for other reasons.

Now, Mr. Chairman, we look on the current situation with ferrous scrap exports as calling for both short-range and long-range actions.

For the short range, the problem is so severe as to warrant a drastic curtailment of exports for a temporary period. There are a number of proposals that have been introduced in the House of Representatives calling for an embargo for 180 days, and we certainly endorse some such steps. For the long range, to assure that we do not repeat the cycle of 1969 and 1970 and 1973–74, we would like to support some proposals for specific changes in the Export Administration Act of 1969.

With your leave, I will attach the proposed amendments to my statement. The thrust of these amendments, as Mr. Cort has mentioned, is to establish a new category of volatile commodities, which under the definition proposed would exclude agricultural products and would include only a very few industrial commodities that have been particularly troublesome. The amendments would make it the policy of the United States to provide information gathering, reporting, and analysis of data, to enable a continuous monitoring of these volatile commodities. It would also be the policy to formulate regulations setting out the amounts and grades of volatile commodities that may be exported during each year or fraction thereof to provide for seasonal adjustment, without contributing to an excessive drain of scarce materials or serious inflationary impact of foreign demand. [The proposed amendments to the Export Administration Act of 1969 referred to by Mr. Heffernan are identical with those submitted by the previous witness, Mr. Cort and may be found on page 395.]

We also support the change in the language in criteria from section 3(2)(a) which would substitute the word "or" for "and" and delete the word "abnormal" before the words "foreign demand," as this subcommittee itself saw fit to do last year. We believe these changes would make it clear that it is congressional intent to use export control authority to avoid letting the situations get completely out of hand before taking a look at them.

Further, if the administration's use of the authority is to fulfill foreign policy, at least make that policy known and let it be subject to congressional review. Finally, the current conditions should be understood to realize how much a strong mandate to the Secretary of Commerce is needed. Although the Secretary announced in November 1973, licensing of 2.1 million tons of scrap for export the first quarter of 1974, what he did not make clear was the magnitude of unshipped tonnage of scrap that was licensed in 1973 but would be carried over for shipment in 1974.

If you add approximately 900,000 more tons, somewhere between 900,000 and 1 million tons, of carryover to the 2.1 million tons, the exports for the first quarter of 1974 can run 3 million tons. The 2.1 million tons, now set for the second quarter, added to that—you see that this year's tonnage allowance of 5.1 million tons for the first 6 months is just slightly under the 5.9 million tons exported during the first 6 months of 1973.

But look out. The real pressure last year came in the third quarter, when exports jumped to 3.4 million tons. We are now approaching the third quarter, traditionally the peak export period. However, now, 1974 domestic demands are projected at 8 million tons above 1973's alltime record demands. Inventories are at an alltime low and scrap

prices are already somewhere between 200 and 300 percent of what they were a year ago.

Without your action on this matter, the administration's intention to continue to gamble seems clear. We urge you to protect the supply of this necessary raw material, ferrous scrap metal, at prices that are reasonable during the periods when domestic demand is high by limiting the exports of this volatile commodity.

We certainly agree that there are times when domestic demand is not high and we ought to be able to export all the scrap metal available. I cite as such an example, I believe it was the year 1961. The domestic demand ran only around 35 million tons. We exported 10 million tons of scrap metal in that year and had no disruptions, had little in the way of inflationary impact.

So we are really talking about those periods of time when the combination of domestic demand and the export demand run high. We must do something about controlling those exports to assure a priority for mills and foundries.

I would like to point out that in this regard we supported and asked to have introduced a year ago—and I notice Congressman Moakley who is here has introduced it this year—a very specific trigger mechanism that would have in fact set a trigger on the levels of scrap exports based on the kind of consideration of domestic and export demand we have talked about. It is only after a long, frustrating year that we began to realize that it probably was unrealistic to expect the Congress to pass specific commodity legislation, that we have in fact now are proposing today some language of a generic nature that would apply to volatile commodities, as opposed to scrap by itself.

I believe my time probably has more than expired, Mr. Chairman. I appreciate the time and the patience granted to me by you and the members of the subcommittee.

[The prepared statement of Mr. Heffernan on behalf of the Cast Iron Pipe Research Association, follows:]

Prepared Statement of Edward D. Heffernan, Director of Washington Affairs, Cast Iron Pipe Research Association

Mr. Chairman and members of the Subcommittee, my name is Edward D. Hiffernan. I represent the Cast Iron Pipe Research Association, a national trade association of manufacturers of cast and ductile iron pressure pipe. CIPRA consists of seven members who operate pipe foundries employing more than 15,000 people, with a high percentage of minorities represented. These pipe foundries are located in nine states: Alabama, California, Illinois, Ohio, New Jersey, Tennessee, Texas, Utah and Virginia.

The cast iron pressure pipe and fittings industry annually ships about 2,000,000 tons of castings. Most of these castings are used in community water and sewer systems, and so the role our industry plays in maintaining the public health of the nation is evident.

Our industry has a low profile because its product is generally installed below ground, or in water treatment and sewage disposal plants and seldom seen by the average citizen. Therefore, a brief description of the manufacturing and marketing practice of the industry is in order.

In a typical cast iron pipe foundry, scrap metal is mixed with coke and limestone and melted in a cupola furnace. The molten iron is poured into rotating (centrifugal) molds where the pipe is formed to its finished dimensions. Unlike the static casting foundry, there are no foundry returns in a pipe foundry—except for pipe rejected for not meeting quality control standards. And, unlike the steel industry, there is no "home scrap" in a pipe foundry. Therefore, the

cast iron pressure pipe industry is heavily dependent on ferrous scrap as a material for manufacturing. The metal charge of a cupola may range from seventy percent scrap and thirty percent pig iron to one hundred percent scrap, depending on the melting practices of the foundry.

The type of scrap commonly used consists of shredded automobiles, chunks of old structural steel, mining machinery, farm and construction equipment, etc. Scrap iron castings, such as old radiators and old cast iron columns are also utilized when available, but this type of scrap is fast disappearing from the scene. Our industry, and others in the iron and steel manufacturing area are truly the recyclers of waste iron and steel.

Most cast and ductile iron pressure pipe is sold by the manufacturer directly to the user of pipe—the local water or sewer utility, or to a general contractor who is constructing a water or sewer system. Very little cast or ductile iron pressure pipe is sold to jobbers for stockpiling or warehousing. In this sense, pipe foundries are custom casting shops. Orders are taken and production is scheduled for delivery by agreed upon dates.

Pipe foundries purchase scrap on a continuing basis with frequencies ranging from monthly to daily. It is customary for pipe foundries to maintain a scrap inventory sufficient to meet their anticipated needs of one to two months. During this current period of scrap shortage and unrealistic prices, the foundries have drawn down their inventories. All report thay operate on a "hand-to-mouth" basis, obtaining scrap in the qualities they need in small dribs and drabs and by contacting an ever growing number of sources.

The precipitous increase in the price of scrap is not the only factor affecting our members' manufacturing cost.

The deteriorating quality of the presently available scrap is also adding to production costs. Foundrymen today are forced to accept scrap of a quality that two years ago they would have rejected at first sight. To reject such scrap today is to invite production shutdowns. Some scrap suppliers now refuse to process to specifications long in use.

Several of our members report damage to their air pollution control equipment caused by burnable trash in shredded scrap. If this trash is allowed to get into the cupola, it is blown off in an incendiary state by the cupola blast, picked up by the air pollution control devices and carried over into the bag house where it can set the bags on fire. Foundrymen using the wet process of air pollution control report difficulties with plugging of their equipment by blown off trash. These increased maintenance costs serve only to increase production costs.

Manufacturers of ductile iron pipe report that the forced use of poorly processed scrap is causing metallurgical problems which require them to re-anneal their product. With an energy crisis at hand, is there any justification for doubling the use of natural gas in order to properly anneal a ductile iron casting?

Even more serious than the problem of absorbing inflated scrap prices, is the problem that can be caused by a shortage of scrap. Failure of a cast iron pipe manufacturer to meet a scheduled delivery of pipe because of a slowdown or shutdown in production can have dire consequences for both the user and the manufacturer. Delay of construction while the user re-engineers the project to accommodate a substitute material adds to the overall cost of the project; the customer is forced to accept a piping material which he did not originally want; and, the manufacturer has lost a customer. Such is the chain reaction of events which can occur when the manufacturer of cast iron pipe is unable to obtain the quantities of scrap he requires. The possibility of such events occurring this year are very real indeed.

In late January 1973, following four months of continually rising scrap prices, representatives of the steel and iron foundry industries met with officials of the Department of Commerce. The industry representatives stated that the steel and foundry industries would need a record 41.5 million tons of purchased ferrous scrap in 1973.

In the meantime, leaders of the domestic scrap industry were openly projecting scrap exports for the first half of 1973 at an annual level of 12 million tons. This would require total delivery of 53.5 million tons to both domestic and export markets by the scrap industry—an unprecedented tonnage in light of recent history.

Deliveries at annual rates of 46 million tons in 1969, and during the first half of 1970 created chaotic short supply conditions and inflationary prices.

By 1973, the United States was the only industrialized nation in the free world permitting the uncontrolled export of ferrous scrap in substantial quantities.

The steel and foundry industry representatives asked that Commerce limit exports of ferrous scrap in 1973 to 7 million tons. This compared to 7.38 million tons exported in 1972, and with an annual average over the past ten years of 7.1 million tons.

The Department of Commerce took no action on the steel and foundry industries' request, and by the end of April 1973, combined deliveries of domestic purchases and exports reached 17,973,000 tons—an annual rate of 53.9 million tons.

On May 8, 1973, more than three months after the steel and foundry industries' warning of impending trouble, Secretary Dent stated that he was "extremely concerned" about recent price increases in ferrous scrap. Stating that Commerce lacked "up-to-date information on ferrous scrap," the Secretary announced that a reporting procedure was being instituted. Under this program, exporters were required to report immediately to Commerce all orders accepted of 500 tons or more.

On July 2, 1973, Secretary Dent announced: "I have determined that the criteria set forth in the Export Administration Act have been met for this commodity (scrap)," whereupon a program of month-by-month licensing of scrap exports was instituted.

It was reasonable to assume that sharp scrap export restrictions would be forthcoming. Such was not the case. Scrap exports continued almost unrestricted.

Exports of ferrous scrap for the first two months under the program, July and August, totalled 2,531,000 tons. Compare this to the exports for the last two months prior to licensing, May and June, which totalled 2,274,000 tons.

In effect, Commerce monitored the scrap situation to the brink of disaster, then instituted "controls" which stabilized exports at an even higher rate than existed prior to licensing.

By year end, 11,257,000 tons of scrap had been shipped into export, with an estimated 600,000 tons licensed for export but not shipped because vessels were not available. The Department of Commerce later acknowledged, informally, that the licensed carryover into 1974 would probably exceed 1,000,000 tons.

The effect of these actions, or inactions, on the domestic price of scrap has been disastrous. By April 1, 1974, scrap was selling at $170 per ton—more than triple the prevailing price at the close of 1972.

Throughout most of this period the price of finished steel and iron products were controlled by the COLC. Many manufacturers, particularly those most dependent upon scrap as a raw material, began to compensate for the high scrap prices by either diverting their raw steel away from the low profit items such as rebars, or by shipping into export where the products could be sold at prices above the controlled domestic price.

Toward the end of November 1973, the Department of Commerce announced its licensing plans for the first quarter of 1974—2.1 million tons. (It didn't announce but intended to allow carryover of approximately 900,000 tons from 1973.) Thus assuring a continued flow of scrap exports at the unprecedented level of a million tons a month average. Then, in February 1974, Commerce announced it was setting a limit of 2.1 million tons of export for the second quarter of 1974.

Meanwhile, current domestic production of automobiles—a major source of prompt industrial scrap—is down considerably. Most of the readily available obsolete scrap has already been gathered. The combined effect of these two forces is beginning to cause near panic among ferrous scrap metal consumers dependent on the raw material.

It is ironic that Treasury Secretary Shultz, during an appearance before the Senate Banking Subcommittee on International Finance in February 1974 to testify on continuation of the Economic Stabilization Act, was sufficiently uninformed to state that a year ago no one could have foreseen the possibility of price inflation and raw material shortages such as this.

The Administration, at the highest levels, insists on a continued high level of scrap exports in order to maintain foreign policy commitments.

Scrap users, still pleading for a reduction in the export of scrap, are now bracing themselves for a new wave of finished steel imports competing in the U.S.

market which will have been made from the raw materials the domestic manufacturers won't have available to them.

The Administration at first ignored our projections and warnings; secondly, they contended they hadn't the authority to act; finally, as the problems persisted and worsened, they acknowledged their authority but took cosmetic rather than substantive steps thereby assuring a further worsening and the need for drastic action.

What does need to be aired, Mr. Chairman, is *why* the Administration was reluctant to act? Why did the Administration suffer severe injury to the domestic iron and steel industry and a devastating inflationary impact on the American consumer as a result of pass-through scrap metal prices that increased 280% in one year?

It became apparent that the Administration views the use or non-use of export control authority as an instrument of its foreign policy. Repeatedly Administration officials have made reference to foreign policy commitments in telling industry representatives that exports would not be further restricted. But at no time has there been any real explanation of policy. We would like to know what the overriding foreign policy commitment is that has a higher priority than the health of these basic industries and freedom from inflation for our people! Perhaps there is such a valid priority. We have a right to know what it is!

Mr. Chairman, I would quickly add that we have no expertise in this area of foreign policy—we are reluctant really to raise it—but we have concluded that it is central to any meaningful discussion of ferrous scrap metal export controls.

Many questions in this area come to mind that ought to be considered in the dialogue before this Committee relative to extending the authority to impose or not impose export controls.

Why is the United States virtually the only country supplying any significant quantities of ferrous scrap metal during this period of international shortage?

Phrased another way—Why is the United States so sensitive as to allow injury to its own economy and iron and steel industry rather than cut down exports when all other comparable foreign steel markets that generate substantial scrap cut off exports with hardly a second thought?

Recently, the Japanese have taken around 50% of all U.S. exports of ferrous scrap. Have special agreements been entered into to assure the Japanese the increased amounts of U.S. scrap that they have been receiving from us? If there have been such agreements, what is the rationale and are there reciprocal agreements to curtail the scrap returning in the form of finished iron and steel imports to the United States?

If there are no special agreements, could we have the reasoning for allowing more than double the amount (1972—2.3 million—1973—4.7 million) of exports of scrap in 1973 over 1972 to Japan at a time when domestic need was setting all time records and when the price to U.S. consumers increased 280%?

If the U.S. is reluctant to impose barriers on exports in the broad interest of establishing a free-trading international market, how long do we wait for some other countries to join us?

We believe it is timely for this Committee to ask the Administration to spell out the policy intentions in this area. How can U.S. steel and foundry businessmen adequately plan for growth and conscientiously divert income to capital investment when they do not know if their own Government can or will assure them priority use of our own domestically produced raw materials. Further, we believe it is this Committee's responsibility to examine all facets of this complex problem of export policy. Otherwise it is a charade and a waste of your time for us to come repeatedly before you and outline the existence of conditions that meet the criteria for imposing export controls while all the while those with authority fully realize the conditions—but are overlooking them for other reasons.

Now, Mr. Chairman, with your permission, we would like to support some proposals for specific changes in the Export Administration Act of 1969. With your leave, I will attach the proposed amendments to my statement. The thrust of these amendments is to establish a new category of volatile commodities which under the definition proposed, would exclude agricultural products and include only a very few industrial commodities that have been particularly troublesome. The amendments would make it the policy of the United States to

provide information gathering, reporting and analysis of data to enable a continuous monitoring of these volatile commodities. It would also be the policy to formulate regulations setting out the amounts and grades of volatile commodities that may be exported during each year or fraction thereof without contributing to an excessive drain of scarce materials or a serious inflationary impact of foreign demand.

We also support the change in the language of the criteria in Section 3 (2) (A) which would substitute the word "or" for "and" and delete the word "abnormal" before the words "foreign demand".

I believe my time has more than expired—I appreciate the patience displayed me by you, Mr. Chairman and the rest of the members of your Committee.

[The proposed amendments to the Export Administration Act of 1969 referred to by Mr. Heffernan in his prepared statement are identical with those submitted by the previous witness, Mr. Cort of the American Iron & Steel Institute and may be found on page 395.]

Mr. ASHLEY. Thank you. Mr. Heffernan.

You suggest some specific areas of changing the law that are very interesting, and that, I can assure you, will be given attention. I might say that in structuring these hearings, generally speaking, we have administration witnesses first, and then we hear public witnesses such as yourself, Members of Congress, and other interested groups and associations. This year we are not doing it that way. We are saving the administration witnesses till the last. One benefit of this approach is that we just might have a good many more questions for them, or perhaps more perceptive questions than would otherwise be the case, because we will have, of course, very much have in mind the testimony that you and others have given.

Our next witness is Charles T. Sheehan, vice president for government affairs of the Cast Metals Federation.

STATEMENT OF CHARLES T. SHEEHAN, VICE PRESIDENT FOR GOVERNMENT AFFAIRS, CAST METALS FEDERATION

Mr. SHEEHAN. Mr. Chairman and members of the subcommittee, I represent the Cast Metals Federation. Members of the Cast Metals Federation are the following national trade associations: Gray and Ductile Iron Founders Society; Malleable Founders Society; the National Foundry Association; and the Steel Founders Society of America.

Two other national trade associations, the Investment Castings Institute and the Non-Ferrous Founders Society, also participate to a limited extent in the activities of the Cast Metals Federation, although they are not members of the Federation.

I will not read my whole statement, but will hit the salient points.

Castings as a technological method is one of the oldest, most basic and least expensive ways employed to shape metal. Ninety percent of all durable goods manufactured require castings as end products or as component parts.

There are roughly 4,200 foundries in the United States, employing almost 400,000 workers. Eighty-two percent of these foundries employ less than 100 workers. The dollar value represented by casting production exceeds $15 billion and represents 22 million tons of castings each year.

Of this tonnage, gray iron castings represent 70 percent. All ferrous castings represent 92 percent. Sixty percent of the total industry output is produced by independent jobbing foundries.

The metal charge in a cupola or in an electric furnace, the common melting methods used by ferrous foundries, may range from 50 percent scrap and 50-percent pig iron to 100-percent scrap. Overall, approximately 83 percent of the annual tonnage of castings shipments consists of purchased scrap.

In 1972, ferrous casting shipments amounted to slightly over 17.8 million tons, and in 1973 castings shipments were slightly over 19.6 million tons. Purchased scrap in 1972 for all ferrous foundries was 14.7 million tons; purchased scrap in 1973 rose to 16.2 million tons.

The 1973 level of overall demand has remained the same in the first quarter of 1974. Record backlogs, plus the fact that there is virtually no inventory of castings, lead to the reasonable estimate that castings shipments in 1974 will at least equal 1973, if not exceeding 1973 by one or two percentage points. This projection is contingent upon possible shortages of raw materials, the supply of energy, and severe or prolonged work stoppages.

Now, the reason for my wanting to follow Mr. Heffernan was really in the interest of time for the members of the subcommittee, because I would like to point out that most if not all of the member companies of the Cast Iron Pipe Research Association are members of one or more of the associations which are members of the Cast Metals Federation. As a consequence, our relationship with the Cast Iron Pipe Research Association is very close.

In the case of the short supply and highly inflationary prices of iron and steel scrap, the problems of our respective member foundries are identical. The annual shipments of 2 million tons of castings by the cast iron pressure pipe and fittings industry are included in the overall ferrous castings industry shipments of 16.2 million tons which I mentioned before.

We have worked closely with the Cast Iron Pipe Research Association in preparing for the many meetings with the Department of Commerce in 1973 and in preparing and presenting testimony to subcommittees of the House and Senate on the iron and steel scrap shortage problem. Similarly, we have worked with CIPRA in preparing for this hearing.

We concur completely with the statement presented to the subcommittee by Edward D. Heffernan, director of Washington affairs of the Cast Iron Pipe Research Association. We are in complete agreement with the facts presented, the summary of events leading up to the present situation, conclusions reached, remedies requested, and amendments proposed.

I would like to add that we, the Cast Metals Federation, had a delegation of our members meet with Peter Flanigan, the President's Adviser on International Economic Policy, and that in addition, William Eberle, the Special Ambassador for Trade Relations, addressed a conference of the Cast Metals Federation this February.

Mr. Flanigan told our group that the administration was committed to a free trade policy and would oppose restriction of exports. In this he would not differentiate between exports of raw materials and of finished products.

He alluded to the foreign policy commitments to other nations, which he said we must also recognize. He did not fully explore the relationship, or explain the relationship, between a free trade policy and the very specific scrap export allocations of the Department of Commerce covering the first quarter of 1974.

Mr. Eberle in his talk at our conference explained that world trade is very complex and involves many exports and imports, and that policies of a nation such as ours in such trade are not easily changed. Also, that we had traditionally exported about 12 percent of the tonnage of ferrous scrap and that we should continue to do so.

Further, he went on to say that our scrap is strongly desired and needed by those countries which purchase it, and that they cannot purchase it elsewhere. Similarly, that we need some materials which can be considered critical for an industrial nation and need to export scrap to assure import of these critical materials.

Now, some of this may be true. But we are exporting much more than the traditional 12 percent of scrap tonnage. Exports of 11.3 million tons per year against a total tonnage of 54.6 million tons amounts to more than 20 percent.

If exports had been held to the traditional percentage during the past year or more, about half the pressure of the exports on prices and shortages would have been avoided, and prices of items made from iron and steel castings would be lower.

Also, why is it that we alone, as Mr. Heffernan stated, of all the industrial nations of the world, have to agree to export ferrous scrap in order to assure imports of critical materials that we need when the other industrial nations are more dependent on imports of them than we are?

We believe the Congress passed the Export Administration Act of 1969 providing for several degrees of export limitations, including embargo if necessary, by the Department of Commerce, because such legislation was needed.

We believe that the continuation of the Export Administration Act is essential. We also believe that the strengthening amendments proposed and submitted with Mr. Heffernan's statement this afternoon are necessary in order that the will of the Congress can be carried out.

The spirit and intent of the act is such that the responsibility of the Department of Commerce is to act quickly and forcefully. The continuous monitoring techniques and advisory committees proposed in the amendments would enable the Department to spot trends and danger signals well in advance. As the act is now administered, action, if any, is always too little and too late.

Our only question or concern over the proposed amendments is, do they go far enough, inasmuch as final, discretionary decisionmaking authority still remains with the Secretary of Commerce?

Perhaps there should be, as has been suggested by some, a procedure under which the representatives of the affected industry on the advisory committee could file a complaint with an administrative law court to compel the Secretary to take necessary action. Such a proceeding and final decision would have to be held and rendered on an expedited basis, before irreparable harm would be done, not only to the affected industry, but to the entire economy of the United States.

I wish to thank the chairman and the subcommittee for giving me the opportunity to testify.

[The prepared statement of Mr. Sheehan on behalf of the Cast Metals Federation, follows:]

Prepared Statement of Charles T. Sheehan, Vice President, Government Affairs, Cast Metals Federation

Mr. Chairman and members of the Subcommittee, my name is Charles T. Sheehan. I represent the Cast Metals Federation. Members of the Cast Metals Federation are the following national trade associations: Gray and Ductile Iron Founders Society; Malleable Founders Society; National Foundry Association; Steel Founders Society of America.

Two other national trade associations, the Investment Castings Institute and the Non Ferrous Founders Society also participate to a limited extent in the activities of the Cast Metals Federation, although they are not members of the Federation.

Foundries produce castings through a technique of pouring liquid metal into cavities of sand, metal or ceramic molds. Most frequently these metals are melted in electric furnaces or in cupolas. The resultant metal casting may weigh as little as a few ounces or as much as many tons.

Castings as a technological method is one of the oldest, most basic and least expensive ways employed to shape metal; other metal-shaping processes include forging, stamping and machining. Ninety percent (90%) of all durable goods manufactured require castings as end products or as component parts.

The foundry industry size is often measured on the basis of tons of castings shipped. It is usually compared with other industries on the basis of the dollar value added by manufacture. According to the data issued by the U.S. Department of Commerce, the foundry industry ranks sixth among all manufacturing industries. Only motor vehicles, blast furnaces and steel mills, aircraft, basic chemicals and communication equipment exceed the foundry industry in rank and in size by the value added by manufacture.

The size of our industry is misleading because most foundries are either small, indpendent privately owned operations, or are captive foundries of large automotive or heavy equipment manufacturers. Of the roughly 4,200 foundries in the United States, employing almost 400,000 workers, *82% employ less 100 workers.* The dollar value represented by casting production exceeds $15 billion and represents 22 million tons of castings each year. Of this tonnage, gray iron castings represent 70 percent; all ferrous castings represent 92 percent. Sixty percent (60%) of the total industry output is produced by independent jobbing foundries.

It is an interesting paradox that while demand for castings is increasing at a rate of 6–7% per year, the number of foundries are decreasing each year. For example, in 1950 there were 3,000 gray and ductile iron foundries, by 1970 only 1,500, and it is estimated that as many as 500 more will close in the next five years. The primary reason is that metal casters have not been able to generate the funds to modernize, expand, and equip. The anticipated increasing decline in number of foundries is due to lack of profits and to the need for capital to meet OSHA and environmental control standards.

Castings are vital to our economy—as vital as any raw material or component can be. As an example, these major industries buy castings from jobbing foundries:

(1) Motor vehicles and trucks.
(2) Industrial machinery.
(3) Metal products, including heating and air conditioning equipment.
(4) Machine tools.
(5) Water pipe.
(6) Railroads.
(7) Electrical machinery.
(8) Construction and farm machinery.
(9) Engines and turbines.
(10) Household applicanes.

The ten general industries summarized above actually encomposs approximately 500 different industries.

Every time a ton of iron and steel scrap is recycled through a ferrous foundry, our natural resources are preserved by 1½ tons of iron ore, one ton of coke and ½ ton of limestone.

The metal charge in a coupola or electric furnace, the common melting methods utilized by ferrous founders, may range from fifty percent scrap and fifty percent pig iron to one hundred percent scrap. Overall, approximately eighty-three (83) percent of the annual tonnage of castings shipments consists of purchased scrap.

Our method of arriving at this percentage may seem simplistic but is very practical and has traditionally been quite accurate. It is basically this: Castings shipment minus pig iron equals purchased scrap. We also assume ferro alloy additions equal melt loss:

From this we develop the following:

[In tons]

Shipments	1972	1973
Malleable castings	960,000	1,050,000
Steel castings	1,610,000	1,760,000
Gray and ductile iron castings	15,300,000	16,800,000
Total	17,870,000	19,610,000
Pig iron usage	−3,083,000	−3,390,000
Purchased scrap	14,787,000	16,220,000

The 1973 level of overall demand has remained the same in the first quarter of 1974. Record backlogs plus the fact that there is virtually no inventorying of castings lead to the reasonable estimate that castings shipments in 1974 will at least equal 1973, if not exceeding 1973 by one or two percentage points. This projection is contingent upon possible shortages of raw materials, the supply of energy and severe or prolonged work stoppages.

In the interest of time of the members of the subcommittee I would like to point out that most, if not all, of the member companies of the Cast Iron Pipe Research Association are members of one or more of the assciations which are members of the Cast Metals Federation. As a consequence, our relationship with the Cast Iron Pipe Research Association is very close.

In the case of the short supply and highly inflationary prices of iron and steel scrap the problems of our respective member foundries are identical. The annual shipments of 2,000,000 tons of castings by the cast iron pressure pipe and fittings industry are included in the overall ferrous castings industry shipments of 16,220,000 tons mentioned above. We have worked closely with the Cast Iron Pipe Research Association in preparing for the many meetings with the Department of Commerce in 1973 and in preparing and presenting testimony to subcommittees of the House and Senate on the iron and steel scrap shortage problem. Similarly, we have worked with CIPRA in preparing for this hearing.

We concur completely with the statement presented to the subcommittee this morning by Mr. Edward D. Heffernan, Director of Washington Affairs, Cast Iron Pipe Research Association. We are in complete agreement with the facts presented, the summary of events leading up to the present situation, conclusions reached, remedies requested and amendments proposed.

I would like to add that we had a delegation of our members meet with Mr. Peter Flanigan, the President's Advisor on International Economic Policy and that, in addition, Mr. William Eberle, the Special Ambassador for Trade Relations addressed a conference of the Cast Metals Federation this February.

Mr. Flanigan told our group that the Administration was committed to a free trade policy and would oppose restriction of exports. In this he would not differentiate between exports of raw materials and finished products.

He alluded to the foreign policy commitments to other nations which he said we must also recognize. He did not fully explore the relationship between a free trade policy and the very specific scrap export allocations of the Department of Commerce covering the first quarter of 1974.

Mr. Eberle in his talk at our conference explained that world trade is very complex and involves many exports and imports and that policies of a nation

such as ours in such trade are not easily changed. Also, that we had traditionally exported about 12 percent of the tonnage of ferrous scrap and that we should continue to do so.

Further, he went on to say that our scrap is strongly desired and needed by those countries which purchase it and that they cannot purchase it elsewhere. Similarly, that we need some materials which can be considered critical for an industrial nation and need to export scrap to assure import of these materials.

Now some of this may be true, but we are exporting much more than the traditional 12 percent of scrap tonnage. Exports of 11.3 million tons per year against a total tonnage of 54.6 million tons amounts to more than 20 percent.

If exports had been held to the traditional percentage during the past year or more, about half the pressure of the exports on prices and shortages would have been avoided and prices of items made from iron and steel castings would be lower.

Also, why is it that we alone of all the industrial nations of the world have to agree to export ferrous scrap in order to assure imports of these critical materials when the other industrial nations are more dependent on imports of them than we are?

We believe the Congress passed the Export Administration Act of 1969 providing for several degrees of export limitations—including embargo if necessary—by the Department of Commerce because such legislation was needed.

We believe that the continuation of the Export Administration Act is essential. We also believe that the strengthening amendments proposed and submitted with Mr. Heffernan's statement this morning are necessary in order that the will of the Congress can be carried out. The spirit and intent of the Act is such that the responsibility of the Department of Commerce is to act quickly and forcefully. The continuous monitoring techniques and advisory committees will enable the Department to spot trends and danger signals well in advance. As the Act is now administered, action, if any, is always too little and too late.

Our only question or concern over the proposed amendments is do they go far enough, inasmuch as final, discretionary decision-making authority still remains with the Secretary of Commerce?

Perhaps there should be, as suggested by some, a procedure under which the representatives of the affected industry on the advisory committee could file a complaint with an administrative law court to compel the Secretary to take necessary action. Such a proceeding and final decision would have to be held and rendered on an expedited basis before irreparable harm would be done not only to the affected industry but to the entire economy of the United States.

I wish to thank the Chairman of the Subcommittee for giving me the opportunity of testifying on behalf of the foundry industry.

Mr. Ashley. Thank you, Mr. Sheehan.

Next we will hear from Phillip H. Smith, president of Copperweld Corp. of Pittsburgh, Pa.

STATEMENT OF PHILLIP H. SMITH, CHAIRMAN AND PRESIDENT, COPPERWELD CORP., PITTSBURGH, PA.

Mr. Smith. Mr. Chairman, I think it to be in the interest of brevity if we just leave our written testimony that we brought down to be entered into the record. We are in total concurrence with what Mr. Cort and later Mr. Heffernan and Mr. Sheehan have so ably presented.

We feel that the inflationary pressure resulting from the flood of scrap abroad is even more sharp than they have brought out. Looking at our own statistics, we see a clear inelasticity of supply of scrap in the United States. We are mainly concerned with the area in northeast Ohio and western Pennsylvania, and as we look at that area we look back at the statistics and see that in March of 1972, we paid approximately $41 a ton for scrap and at the same time there were domestic receipts of scrap of 3.6 million tons in that same month. A year later, in March of 1973, we paid about $55 a ton for scrap and

the domestic receipts were 3.9 million tons. In March of 1974 we paid close to $165–$170 a ton for scrap and the domestic supply was still approximately 3.3 million tons.

So we demonstrate, I believe, that there is complete inelasticity in the domestic flow of scrap relative to price. We take a slightly different view on the way to control it. We believed the appropriate action to take is not to slam the door completely on exports but rather to control them over a period of 3 years, and therefore, we support the bill introduced by Congressman Charles J. Carney of Youngstown, Ohio, H.R. 13763, where there would be a 6 million ton limit annually for a period of 3 years with a pattern of distribution of that scrap to our trading partners based on what they took from this country in the years 1971 and 1972.

I would also like to point out, sir, that we in the United States operate in a slightly different manner than do our trading partners. Each one of us bids for scrap every month in a purely competitive system, while the Japanese, with whom we are fairly close since we operate a Japanese company in a slightly different field, are permitted to operate in this market using two cartels, one involving six companies, so that some of the competitive pressure is taken away from them and they are in a much more flexible position to bid these markets.

Just to support the statement that Mr. Heffernan made, as recently as 2 months ago in Japan we were told by the trading companies with whom we were discussing part of this problem, that they had been assured by our State Department that they would get their supply. We do not know what the quid pro quo was, but the assurance had been quite truly given.

Two things that do puzzle us is that the Canadians talk about licensing. They have a licensing program, yet they do not issue any licenses. I think this is a very polite way of keeping the door shut. The British, as Mr. Cort very effectively pointed out, put on the embargo in September of 1972, and operate in a totally different way.

When the British buy scrap it goes into a pool in the United Kingdom and each company takes out of the pool at a fixed price. This is the British system of making sure that the private sector of the industry gets their scrap supply at exactly the same price that the British steel company, the nationalized company is paying.

These are some of the differences against which we compete both here in the United States, because much imported steel comes into these markets, and against which we compete abroad, since we at Copperweld export about 20 percent of our product. We compete against those kinds of operating techniques which they are permitted. We compete with them in the world markets.

In summary, Mr. Chairman, we would just ask that favorable action be taken on H.R. 13763 so that the scrap supply can be kept under control in this country, to make certain that there will be a reasonable supply of scrap for the domestic consumers and to insure that our trading partners will also have a reasonable supply of scrap available to them distributed in an equitable fashion.

I would be very happy to answer any questions.

[Mr. Smith's prepared statement follows:]

Statement by Phillip H. Smith

Chairman of the Board and President

Copperweld Corporation

Before the Subcommittee on International Trade
of the
House Committee on Banking and Currency

April 25, 1974

I am Phillip H. Smith, Chairman and President of Copperweld Corporation which operates an electric furnace steelmaking facility at Warren, Ohio, through a wholly-owned subsidiary, Copperweld Specialty Steel Company. This subsidiary produces a broad line of alloy and carbon steels in free-machining grades, heat-treated grades, and cold-finished grades. It is estimated that this facility ranks eighth in electric furnace capacity in the U. S. and twenty-seventh in size among all U. S. steel producers.

This steelmaking plant is the largest domestic non-integrated supplier of standard and special grades of alloy blooms, billets, slabs, flats, coils, and bars--principally bars. Because of its specialized but diversified line of products, Copperweld is a supplier to a large segment of the U. S. metalworking industry. The products of this facility are

used wherever steels that have a high strength-to-weight ratio are required or where abrasion and wear resistance are factors in the selection of appropriate steels. Typical applications are gears, bearing races, oilwell drilling bits, aircraft landing gear structures, and similar parts.

The electric arc furnace is required for the production of these critical steels because of the close control over temperature and atmosphere provided by this type of melting facility which, in turn, provides exact chemistry and high cleanliness in the steel. The principal raw material for the electric arc furnace is ferrous scrap and the Company is a substantial consumer for that commodity in the Canton-Warren-Youngstown, Ohio, area. Ferrous scrap, refined earlier from ore in the original steelmaking process, provides an ideal source of metal for the production of quality steels. In no sense does it represent a scavenging operation, as may be the case in certain steelmaking facilities that produce low-cost simple steel products, such as reinforcing bar, light structurals, etc.

More than half of the purchased scrap consumed in the United States will be used by smaller steel companies similar to Copperweld and by ferrous

foundries, all of which are without blast furnace facilities. The size of the industry and importance of ferrous scrap to the total domestic economy may be judged by comparing the tonnage of steel products produced in the United States with total scrap receipts. During 1973, steel products shipped by U. S. mills amounted to 111,430,000 net tons. In the same year, according to the Bureau of Mines, scrap receipts--not including "home" scrap produced internally by the mills, casting plants, and foundries--were as follows:

	Thousand Net Tons (after deducting inter-plant shipments)	% of Total
Manufacturers of Steel Ingots and Castings	29,659	54.8%
Manufacture of Steel Castings	1,966	3.6
Iron Foundries & Miscellaneous	11,496	21.2
Net Scrap Receipts per Bureau of Mines	43,121	79.6%
Exports per Bureau of Mines	11,064	20.4%
Total Scrap Receipts and Exports	54,185	100.0%

The tonnage of ferrous scrap moving in domestic and export commerce (not including the domestic mills' own scrap) was almost half the total of the

steel produced in the United last year. It is necessary to preserve this resource from being depleted through unlimited export, particularly in periods of metallic shortage such as we are experiencing at present.

The dependence of the United States on the ferrous scrap supply is even more critical when it is realized that during 1973--a peak year of operations--only 101,206,000 net tons of pig iron were produced from iron ore by the integrated steel companies. Limited blast furnace facilities for reducing iron ore coupled with shortages of necessary cokemaking facilities will continue to make the U. S. dependent on its ferrous scrap stock for a continuing supply of iron units. This supply equation has been further jeopardized by environmental requirements of the EPA.

Approximately 80 percent of the ferrous scrap consumed by Copperweld's furnaces is prompt industrial scrap originating from stamping and manufacturing operations in the factories and manufacturing plants within 100 miles of Warren, Ohio. The balance of 20 percent is obsolete ferrous scrap derived from the demolition of railroad cars, locomotives, bridges,

buildings, farm equipment, etc. The over-all supply of prompt industrial scrap is determined by the level of manufacturing production and is relatively unresponsive to price moves except that price changes will re-direct the flow of this material. The supply of obsolete scrap responds to a greater extent on the level of available price. However, the processing of obsolete scrap is not directly proportional to price changes because it is limited by the available labor and processing equipment.

The inelasticity of supply is shown by the data in Table I. Prices shown are those for the various tonnage grades in the Canton-Youngstown-Warren area for 1972 and 1973. Column IV indicates the average of the prices of the three principal grades. Column V shows the monthly receipts of purchased scrap (M Net Tons) of the manufacturers of steel ingots and castings, manufacturers of steel castings, and iron foundries and miscellaneous users after deducting inter-plant shipments.

Examination of the date indicates that scrap receipts have been rising gradually over a two year period but in recent months prices have

risen 50 percent, 100 percent, 150 percent and some even more than 400 percent. While prices have softened slightly in the last 10 days, they are still above those of the month before, and show signs of firming.

Such strong price increases in the face of only a moderate rise in domestic receipts can only be evidence of an inadequate supply in relation to total demand. The shortage has been compounded by the excessive flow of scrap out of the U. S. into export markets. In 1972, scrap exports from the United States were 7,475,348 N.T. and in 1973, despite controls applied by the Department of Commerce, exports totaled 11,064,413 N.T.--an increase of 48 percent! Without licensing controls applied by the Department of Commerce, it is estimated that ferrous scrap exports could have reached 14,000,000 N.T. in 1973.

Chart I has been prepared to show the relative change in the volume of domestic receipts by U. S. consumers, the great growth in export volume, and the skyrocketing increase in prices--all compared with January, 1972 as a base. The excessive flow of ferrous scrap out of the U. S. during the

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past two years has depleted the supply to the point where prices have been driven up because of the lack of supply to meet the combined domestic and export demand.

Because of the inadequacy of supply and the excessive flow of scrap into export markets, we have requested this opportunity to appear before you today to speak in support of H.R. 13763 introduced by Congressman Carney of Ohio. This bill will limit the quantity of iron and steel scrap which may be exported from the United States to six million tons annually during each of the next three years. We believe that this bill will be of considerable help to the domestic economy and still provide a reasonable source of supply of ferrous scrap to our trading partners. The reasons for limiting annual export shipments to a fixed tonnage of 6,000,000 N.T. may be briefly summarized as follows:

First, limiting exports to this quantity will make more ferrous scrap available for domestic use during this period of shortage;

Second, a limitation fixed by legislation will eliminate doubt and equivocation over the determination of the level of export quotas as experienced under the Export Administration Act of 1969 as amended.

Third, other countries, including the United Kingdom, Canada, and the common market countries of Europe have even more stringent limitations, in fact, embargoes, on the level of scrap exports! The free export of scrap from the United Kingdom has been embargoed since September, 1972.

Fourth, other legislation proposed and even the present Export Administration Act are vague as to how a critical shortage can be determined, and, more importantly, the remedies proposed are planned for "after the fact." The delay in obtaining proper statistics, and the doubts as to the accuracy of statistics in a given month make a subjective determination of "critical shortage" so difficult that timely action cannot be implemented.

While an embargo on ferrous scrap exports would accomplish the same objective of enhancing domestic supply, it is our conviction that a fixed export limitation of 6,000,000 N.T. of ferrous scrap per year is more equitable to our trading partners because of our historical position as an exporter of scrap. We recognize that 6,000,000 N.T. per year of ferrous exports may be too high to offset completely the shortage of iron units for domestic steelmaking but we believe that this ceiling fixed by legislative fiat will gradually bring U. S. supply more in line with U. S. demand. Equally important, a fixed ceiling on the export of this commodity will eliminate the speculative accumulation of material for export shipment under a variable quota system.

The three-year period stipulated in H.R. 13763 is the estimated time required for integrated steel producers to increase their blast furnace capacity and coke manufacturing facilities so that increased ferrous units can be obtained from iron ore.

A ferrous export quota fixed as to quantity and as to time as stipulated in H.R. 13763 appears to be the best solution to both domestic needs and export responsibilities.

Gentlemen, thank you for the opportunity of addressing you this afternoon.

TABLE I

COMPARATIVE MARKET PRICES
Canton, Ohio--Warren, Ohio--Youngstown, Ohio
Delivered Prices per Gross Ton
Including Commission

	Column I #1 Industrial Bundles (a)	Column II #1 Busheling	Column III #1 RR H.M. Steel (b)	Column IV Average	Column V Total Domestic Receipts of Ferrous Scrap (c) M Net Tons
January '72	$ 40.72	$ 40.00	$ 41.50	$ 40.74	2,927
February '72	44.11	41.50	43.50	43.04	2,938
March '72	44.87	41.50	42.00	42.79	3,636
April '72	42.84	40.25	43.50	42.20	3,415
May '72	42.67	41.75	44.00	42.81	3,476
June '72	44.01	41.75	42.50	42.75	3,301
July '72	41.55	40.75	43.50	41.93	2,659
August '72	46.15	43.00	46.00	45.05	3,097
September '72	45.63	45.00	44.50	45.04	3,143
October '72	44,86	43.50	45.75	44.70	3,480
November '72	44.41	42.50	47.00	44.64	3,351
December '72	49.03	48.00	51.00	49.34	3,195
January '73	53.19	53.00	53.00	53.06	3,459
February '73	60.96	57.50	57.15	58.54	3,328
March '73	58.21	55.50	58.50	57.40	3,898
April '73	53.73	52.50	61.25	55.83	3,693
May '73	63.01	59.00	64.10	62.04	3,856
June '73	65.20	61.00	65.03	63.74	3,668
July '73	65.15(d)	62.00	No Sale	63.58	3,351
August '73	65.53(d)	62.00	68.00	65.18	3,433
September '73	65.39(d)	65.00	74.00	68.13	3,356
October '73	65.39(d)	74.50	82.55	74.15	3,908
November '73	65.39(d)	90.00	96.00(e)	83.80	3,783
December '73	65.39(d)	90.00	97.70(e)	84.35	3,515
January '74	--	85.00	93.40(e)	89.20	3,346
February '74	--	115.00	132.50	123.75	
March '74	141.84	138.00	155.10	144.98	
April '74	170.43	174.00	168.90(e)	171.11	
Percentage Increase 4/74 vs. 1/72	418%	435%	407%	420%	

(a) Represents the average of material auctioned by Ford at Bedford, Ohio: Chrysler at Twinsburg, Ohio; and Fisher Body at Cleveland, Ohio
(b) Penn Central Railroad
(c) Bureau of Mines--(Net of inter-plant shipments)
(d) Ceiling prices
(e) Erie Railroad

Ferrous scrap metal

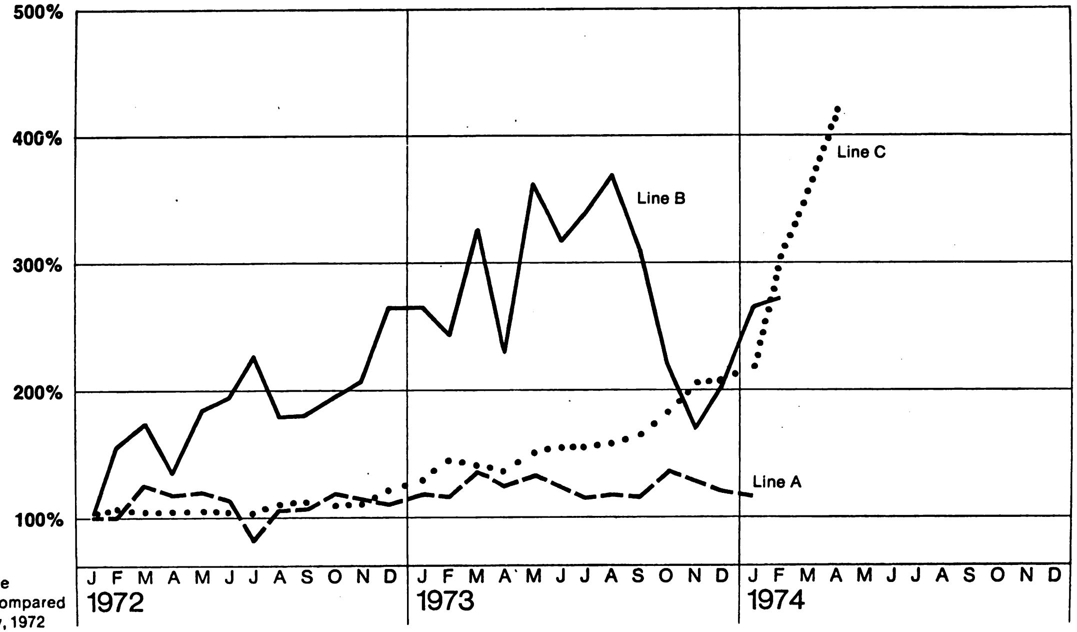

Chart No. 1

Line A
compares monthly tonnage of ferrous scrap (after deducting inter-plant shipments) received by domestic consumers

Line B
compares monthly exports of ferrous scrap

Line C
compares the monthly average of prices in Canton-Warren-Youngstown area

Mr. ASHLEY. Thank you very much.

I must say I will read your prepared statement with interest. I am very impressed by your extemporaneous ability.

Mr. SMITH. It is a problem that is pretty close to our hearts, sir.

Mr. ASHLEY. I can understand that.

Our next witness is Bernard Landau, president of the Institute of Scrap Iron and Steel in Washington, D.C. Mr. Landau is accompanied by Dr. Herschel Cutler, executive director, and by my good friend, Thomas H. Boggs, Jr., Washington counsel.

STATEMENT OF BERNARD LANDAU, PRESIDENT, INSTITUTE OF SCRAP IRON AND STEEL, INC.; ACCOMPANIED BY DR. HERSCHEL CUTLER, EXECUTIVE DIRECTOR, AND THOMAS H. BOGGS, JR., WASHINGTON COUNSEL

Mr. LANDAU. Thank you, Mr. Chairman.

My name is Bernard Landau. I am executive vice president of the M. S. Kaplan Co., headquartered in Chicago, Ill. I am appearing today as president of the Institute of Scrap Iron and Steel, Inc., a national trade association representing approximately 1,250 processors, brokers, and dealers in the metallic scrap processing industry.

As you said, I am accompanied by Dr. Herschel Cutler, executive director of the institute, and Thomas H. Boggs, our Washington counsel.

Mr. ASHLEY. Mr. Landau, you are going to give us the benefit of a condensed version, I trust?

Mr. LANDAU. Yes, I will, sir.

I have an extensive written statement that I request to be inserted in the record.

Mr. ASHLEY. That will be done.

Mr. LANDAU. Over the past year and a half the ferrous scrap industry has been the object of an intense and incessant lobbying campaign to impose or expand export controls on its products. Recently, this campaign has included attacks on the motives of the ferrous scrap industry. The following statement will rebut these charges to the extent that they are relevant to the subcommittee's consideration of possible revisions to the Export Administration Act. In addition, this statement contains suggested amendments to the act. These amendments are based upon the ferrous scrap industry's experience with the implementation of controls during the past year. The ferrous scrap processor is in a demand derived industry. It is an industry in which the market functions in reverse of the traditional marketplace. Thus, the saying, "scrap is bought and not sold."

At any given time, major consumers of scrap, steel mills and foundries, advise the price that they will pay for ferrous scrap and the tonnages they require for delivery, usually in 30 days. The consumer establishes the market for ferrous scrap based on his needs and the price that he feels is adequate to cause that required tonnage to move to his plant, the needs of competing consumers for scrap in and out of his market area and his calculation as to ferrous scrap availability. Although the scrap processor is committed to operate a capital manufac-

turing plant year round, he generally has a commitment for no more than 30 days. Because scrap iron has no other utility than to be remelted by steel mills and foundries, the scrap market is erratic and subject to sharp peaks and valleys based on the demands of the mills and foundries. It should be noted that there are nearly 20 major regional markets for ferrous scrap listed by industry trade publications. The price of scrap is not necessarily the same in these various areas at any one time. Also, there are more than 80 different grades of scrap, most of which are bought at different prices.

Throughout 1973, steel mill operating rates were at or near capacity due to the tremendous demand for steel. Steel and foundry production records were broken, yet delivery delays for finished iron and steel were, in many cases, 6 months or longer.

There is a shortage of finished iron and steel even with steel producers operating at full capacity. This is due, not to a shortage of scrap, but to a deficiency in steelmaking capacity. The recordbreaking demand for steel caused the major steel producers, the integrated mills who rely almost exclusively on iron ore as their purchased raw material for iron units, to enter the ferrous scrap market. Many of these mills had not purchased any ferrous scrap for some period of time, others had purchased minimal amounts at best, and some of these mills had been constant sellers of their own "home scrap."

Despite the significant increase in demand for its products in 1973, the scrap industry met the demand from all consumers, and will again in 1974 prove capable of repeating that performance.

The collection of obsolete scrap cannot be turned on immediately. The scrap collector using his truck for some other purpose, may, when it is to his economic benefit, begin to bring scrap into the processing plants. It is dollars which attract this individual to collect and transport obsolete scrap.

For example, at $5 or $10 per ton, an auto hulk may not move from a remote area to a processing plant; indeed, it may not move from an urban area at that price. However, at $30, $40 or $50 per ton, hulks are being transported hundreds of miles. Movement of obsolete scrap is a function of price.

In the case of prepared industrial and railroad scrap, the scrap broker realizes little more than a nominal fee. Thus, the recent increases in the price of scrap were a benefit to the selling railroads, not to the scrap industry. For example, on March 13, 1972, scrap companies paid the railroads $45 per gross ton for scrap steel car wheels. On March 13, 1974, 2 years later, the price paid to the railroads for that same commodity was $163.

Industrial scrap tonnages have been a contributing factor to higher scrap prices as consumers bid the prices up for the tonnages available. At the present time, hundreds of thousands of tons of prepared ferrous scrap are in scrap processing plants because the railroads cannot provide sufficient gondola cars to ship the materials to scrap consumers. In fact, the number of gondola cars has been declining steadily over the past 20 years. The critical shortage of gondola cars has not only been a major contributor to erratic geographical materials dislocation, it is also inhibited future sales of processed scrap by the individual scrap company.

A shortage of metallurgical coal resulting from increased domestic steel production, coal exports and the recent miners' strike caused major integrated steel producers to cut back blast furnace operations. Since this means that hot metal production will be cut back, additional iron units must come from scrap.

This recent strong demand for ferrous scrap and resulting higher price levels are having a positive effect on the Nation's environment. Abandoned and junked autos, obsolete farm machinery and other types of metallics which can be seen cluttering the Nation's streets and countryside are finding their way to scrap processing plants. The institute has maintained for years that when the economics are right, metallic scrap such as junk cars, will move to scrap processing plants. As a result, the tremendous backlog of obsolete ferrous scrap, estimated to be 750 million tons by the Battelle Memorial Institute in 1969, can be manufactured into manmade resources for remelting by steel mills and foundries. Because of recent price levels for scrap, this huge accumulation of obsolescent metallics scattered throughout the United States is beginning to be reduced.

Exports of ferrous scrap from the United States developed because the domestic consuming industries would not purchase all of the scrap iron that was available and other countries of the world needed this raw material.

It is important to stress that the scrap industry prefers to sell its material to domestic users. This economic rationale may not be apparent. The shipper of scrap domestically is faced with fewer credit, shipping and liability problems in contrast to the magnified difficulties in each of these areas when foreign trade is involved.

The absence of viable domestic markets has required the development and maintenance of foreign markets to preserve the domestic scrap industry. In the absence of foreign demand, the scrap industry would be further atrophied and unable to perform as desired by the domestic consumers.

Moreover, like any buyer, foreign consumers have a right to rely on the stability of their supply sources. They cannot be expected to provide a market when the exporter needs it and then be forced to rely on other sources when certain domestic buyers suddenly find it to their advantage to again enter the scrap market. Suggestions to embargo ferrous scrap would seriously endanger our export markets. If foreign steelmakers become convinced that they will be unable to secure ferrous scrap on a regular basis, this will affect their long-term planning, causing them to become more committed to iron ore intensive facilities than otherwise would be the case.

World trade is not something that can be turned on and off: one customer is a valued asset that is not exploitable at the whim and fancy of other customers. The domestic steel industry is supplying on a priority basis those customers who have remained loyal to domestic steel producers. The scrap industry has not, is not, and will not set such priorities; the scrap industry has met, is now meeting, and will continue to meet the needs of all of its customers, both domestic and foreign. This industry asks only that it be permitted to produce and sell to all of its customers.

Much of the debate concerning the need for export controls on ferrous scrap has centered on the question of whether this commodity is in short supply. Ferrous scrap was not in short supply in 1973. The ability of the scrap industry to meet an estimated demand of as much as 60 million short tons is proof of that fact; nor is it in short supply today, as evidenced by the fact that obsolete scrap continues to pour into scrap processing plants. In addition, the steel and foundry industries are showing by their actions at the present time that no shortage exists. Cancellation of purchase orders are now occurring. Clearly, a purchaser who believes a commodity to be in short supply does not cancel an order unless he believes that supply is in excess of total demand.

The institute's concern with the Export Administration Act involves only short supply controls. In evaluating these controls, a number of policy considerations must be borne in mind. First, experience over the past year has shown that the Department of Commerce has the ability to impose controls when it determines them to be appropriate. No need exists for expansion of the Commerce Department's legal authority to impose controls.

Second, export control legislation always has dealt with the imposition of controls in general terms without attempting to single out any industry for congressionally imposed controls. The reasons for such an approach are obvious. Congressional action with respect to a specific commodity would of necessity force Congress to make a determination with respect to serious factual disputes. Under these circumstances, imposition of controls would be special-interest legislation dependent primarily on the number of legislators which that interest group could contact to present one side of the dispute. No adequate forum within Congress exists to afford all members the opportunity to hear all sides at any moment. No right to cross-examine assertions of the party pressing for controls exists in this situation. Because of all these difficulties, the quasi-judicial determination of whether to impose controls has been left to the Department of Commerce under past export control legislation. This approach should be followed by the Congress in extending export control authority.

Third, export controls have a harmful effect on the United States balance of payments position. A total embargo on ferrous scrap exports would have a negative effect of almost $850 million.

It is important to note that admitted shortages of metallurgical coal and finished steel exist, yet the Department of Commerce has not seen fit to impose export controls on either of these items. Why should the scrap industry, a small relatively insignificant segment of the U.S. economy be singled out for export controls? The obvious answer is that these controls are sought for the self-serving interests of the American steel and foundry industries.

Price controls through export restrictions continue to be sought for ferrous scrap at a time when controls are being dropped on virtually all other commodities as unworkable.

Finally, it should be noted that the steel and foundry industries are not suggesting that export sales lost because of export restrictions would be offset by increased domestic purchases. What these industries do suggest is that export sales of ferrous scrap be reduced or eliminated

so that domestic scrap buyers can benefit even further from present high demand levels for their products. Such a policy assures that ferrous materials which would have been recycled but for export controls will become part of the solid waste problem in the United States.

Experience with export controls on ferrous scrap over the past 9 months has led the ferrous scrap industry to the conclusion that further procedural safeguards with respect to short supply controls should be included in the act. The imposition of export controls should be based upon an administrative record and should be subject to judicial review. It is more equitable to the parties involved if the decision actually to impose controls is taken after a full evidentiary hearing where all parties are subject to cross-examination. Such a procedure is particularly applicable for a material such as ferrous scrap where a serious factual dispute has arisen as to whether a shortage exists. In fact, a requirement should be added that the Department of Commerce prepare for review a supply situation study prior to considering imposition of export controls on any commodity.

An exemption from formal procedural and judicial review requirements clearly is warranted for national security or foreign policy controls, but no exemption is necessary when the only issue involved concerns short supply controls. Section 7 of the Export Administration Act, thus, should be revised to remove short supply controls from the exemption provisions.

A number of proposals to grant authority for retaliatory export controls have received considerable attention recently, prompted in large part by the oil embargo. These proposals are desirable but should be modified to provide more specific criteria as to when these retaliatory measures can be imposed. The procedural safeguards previously discussed also should be extended to retaliatory export controls.

The administration proposals for amendments of the Export Administration Act include a provision authorizing the President to effectuate the policy of the act by "whatever method of regulation he deems most appropriate, including, but not limited to, the imposition of an export fee or the auction of export licenses."

This proposal appears to be both unconstitutional and undesirable as outlined in our written statement. Apart from this prohibition under the Constitution, an auction system would be both unfair to established exporters and would cause serious market disruptions. While certainly not without drawbacks, the historical pattern is probably the fairest allocation system now known since it assures that existing exporters will be permitted to continue their normal relationships. The only problems with this approach come with respect to newcomers to the market or with the historical period chosen. These two problems can be alleviated by setting aside a portion of the total export quota for hardship situations.

Moreover, an auction might permit a highly organized trading system operated by foreign nationals to corner the U.S. export market in a particular commodity to the exclusion of the American firms and to the detriment of the U.S. foreign policy interests generally.

In summary, the Institute of Scrap Iron and Steel recommends that the Export Administration Act be extended in its present form without any reference to specific commodities and with additional proce-

dural safeguards. Limited authority to impose retaliatory export controls should be granted to the executive branch, but authority to administer export controls through a fee or auction system should not be granted.

That is the end of my statement. Thank you, Mr. Chairman.

[Mr. Landau's prepared statement on behalf of the Institute of Scrap Iron and Steel, follows:]

PREPARED STATEMENT OF BERNARD LANDAU, PRESIDENT, INSTITUTE OF SCRAP IRON AND STEEL, INC. (ISIS)

This statement is submitted on behalf of the Institute of Scrap Iron and Steel, Inc. (ISIS), a national trade association representing approximately 1,250 processors, brokers and dealers in the metallic scrap processing industry. Institute members process, ship or otherwise handle approximately 90% to 95% of the iron and steel scrap purchased in the United States and handle equally impressive percentages of the many other metallic solid waste materials which are recycled in our economy.

Over the past year and one-half, the ferrous scrap industry has been the object of an intense and incessant lobbying campaign to impose or expand export controls. Recently, this campaign has included attacks on the motives of the ferrous scrap industry. The following statement will rebut these charges to the extent that they are relevant to this Subcommittee's consideration of possible revisions to the Export Administration Act. In addition, the statement contains suggested revisions of the Act. These amendments are based upon the ferrous scrap industry's experience with the implementation of controls during the past year.

I. FERROUS SCRAP MARKET

In testimony before this Subcommittee in March, 1973, the Institute described the operation of the ferrous scrap market in some detail.[1] Rather than repeat this discussion, the major points from that statement are summarized here and are supplemented by a description of developments which have occurred in the past year.

A. How the Ferrous Scrap Market Functions

The ferrous scrap processor is in a demand-derived industry. It is an industry in which the market functions in reverse of the traditional marketplace. Thus the saying, "scrap is bought, not sold."

1. *How market prices for ferrous scrap are established.*—At any given time (domestic industry practice is generally monthly) major consumers (steel mills and foundries are the only significant consumers of scrap) advise the price they will pay for ferrous scrap and the tonnages they require for delivery in 30 days. The consumer establishes the market for ferrous scrap based on his needs and the price that he feels is adequate to cause that required tonnage to move to his plant, the need of competing consumers for scrap (in and out of his market area), his calculation as to ferrous scrap availability, etc.

After consumers have arrived at price and tonnage requirements, individual scrap processors must then calculate backwards these two factors in relationship to the cost of purchasing the unprepared scrap to fill the orders, and the processing and overhead costs, to determine if they can meet the needs and operate their businesses at a reasonable profit.

The scrap processor will adjust his buying prices of unprocessed ferrous scrap to collectors (and others) from whom he buys obsolete material, to *reflect the prices etablished by consumers of prepared scrap.*

All of this happens generally within a 30-day period and usually 12 times each year. Although the scrap processor is committed to operate a capital intensive manufacturing plant year-round to prepare scrap, he generally has a commitment for no more than 30 days as to the amount of scrap consumers will buy and the prices which they will offer for that scrap. Because the scrap iron has no other utility than to be remelted by steel mills and foundries, the scrap market

[1] Hearings before the Subcommittee on International Trade of the House Banking and Currency Committee on H.R. 5769 at 398–402 (1973).

is erratic and subject to sharp peaks and valleys based on the demands of these mills and foundries.

It should be noted that there are nearly 20 major regional markets for ferrous scrap listed by industry trade publications. The price of scrap is not necessarily the same in these various areas at any one time. Also, there are more than 80 different grades of scrap, most of which are bought at different prices. Prices most often quoted are for No. 1 Heavy Melting Scrap—a bellwether grade for the industry. No. 1 Heavy Melting is considered one of the prime grades and therefore is higher in price than most other grades.

2. *Buyers of Scrap.*—Throughout 1973, steel mill operating rates were at or near capacity due to the tremendous demand for steel. Steel and foundry production records were broken, yet delivery delays for finished iron and steel were in many cases six months or longer. There is a shortage of finished iron and steel even with steel producers operating at capacity. This is due not to a shortage of scrap but to a deficiency in steel-making capacity.

The record-breaking demand for steel caused the major steel producers—the inegrated mills who rely almost exclusively on iron ore as their purchased raw material for iron units—to enter the ferrous scrap market. Many of these mills had not purchased any ferrous scrap for some period of time, and others had purchased minimal amounts at best, and as a matter of fact, many of these mills had been constant sellers of "home scrap." However, with high operating rates, and blast furnaces (which reduce iron ore to hot metal for charging into the steel-making furnace) operating at capacity, the way to get additional iron units for furnace charging was to purchase ferrous scrap.

This meant that in addition to the "regular" consumers of ferrous scrap there suddenly appeared substantial tonnage requirements by major integrated steel mills. The addition, numerous new electric furnaces (which use virtually 100 percent scrap) went into operation during 1972–1973. As a result, purchase prices were increased by the "new" consumers to attract the tonnages of ferrous scrap they required. "Regular" customers responded by meeting or exceeding these prices and the spiral began.

With consumers offering higher prices for the scrap they needed, the scrap processor in turn was able to increase the prices he was paying for unprepared materials for processing in his plant. Because of higher prices being paid at all levels in the scrap cycle, a substantially increased amount of prepared scrap was processed and shipped in 1973 by the scrap industry.

Despite the significant increase in demand for its products in 1973, the scrap industry met the demand from *all* consumers, and will again in 1974 prove capable of repeating that performance.

B. Types of Scrap

The collection of obsolete scrap cannot be turned on immediately as one would turn on a water faucet. The individual using his truck for some other purpose, may, when it is to his economic benefit, begin to bring scrap into the processing plant.

That individual also remembers the last time there was a sharp increase in demand for scrap in 1970, which, after five to six months, decreased just as sharply, causing him to stop collecting scrap and to find another source of income. He has been subjected to the "on and off" demand for scrap and considers that economic risk factor before entering the scrap collection system again.

It is dollars which attract this individual to collect and transport obsolete scrap. These come from the additional dollars ferrous scrap consumers are paying to scrap processors—in essence the processor passes dollars through to attract the additional unprepared material required.

For example, at $5.00 or $10.00 per ton, an auto hulk may not move from a rural area to a processing plant—it may not move from an urban area at that price. However at $30.00, $40.00 or $50.00 per ton, hulks are being transported hundreds of miles. Movement of obsolete scrap is a function of price.

In the case of prepared industrial and railroad scrap, the scrap company realizes little more than a nominal brokerage fee. The increase in the price of scrap was of benefit to the selling railroad, not the scrap processing industry. For example, on March 13, 1972, scrap companies paid the railroads $45.00 (per gross ton) for scrap steel car wheels. On March 13, 1974, the price paid to the railroads for that same commodity was $163.00.

The same is basically true for generators of industrial scrap. They are realizing the income of current scrap prices.

Industrial scrap is the "leftovers" when new products are manufactured from steel. For example, when a fender is stamped out of a sheet of steel the left-over portion is sold for scrap. This type of material is generally desired by scrap consumers because of its known chemistry, and therefore will always move, even in depressed scrap markets. In a period of strong demand, the price for this type of mtaerial is bid up by consumers and tends to establish price levels for other grades of scrap.

The current reduction in production of autos and home appliances has reduced the generation of industrial scrap from these plants, which has been a contributing factor to higher scrap prices, as consumers bid the price up for the limited tonnages available from these sources.

C. Critical Shortage of Railroad Gondola Freight Cars

More than two-thirds of the scrap moved in the U.S. is transported by gondola cars—the type of freight car provided by the railroads for scrap service. At the present time, hundreds of thousands of tons of prepared ferrous scrap are sitting in scrap processing plants because the railroads cannot provide sufficient gondola cars to ship the material to consumers. In fact, the number of gondola cars has been declining steadily over the past 20 years, a situation which the government and the railroads are aware of, but has been ignored. Orders placed for additional gondola cars declined from 3,038 in the first half of 1972 to 707 during the first half of 1973, as compared to a total car building program of 51,644 cars, an increase more than double the same period in 1972.

Unfortunately, little scrap can be transported to the steel industry via trucks, but for good reason. Steel mills, which are huge installations, are set up to receive raw materials by rail delivery. Gondola cars average more than 50 tons of scrap per car. The maximum for trucks is generally 20 to 25 tons. Thus, there are significant congestion and safety problems to consider. Also, scrap is generally unloaded directly from the rail car into the steel making furnace.

The standard contractual agreement between the buyer of scrap and the scrap processor provides for cancellation of the order by the *buyer*, if the material is not delivered within the contractual period, usually 30 days. If the scrap processor is unable to get railroad cars to ship his material within the contractual period, the consumer can simply cancel the contract. Why would a scrap processor knowingly stock up on large amounts of unprepared materials for future sales under the ever present threat of prompt cancellation of his orders for processed materials in the 30-day period? Therefore, the constant critical shortage of gondola cars has not only been a major contributor to erratic geographical materials dislocation, it has also inhibited future sales of processed scrap by the individual scrap company.

D. Shortage of Metallurgical Coal for Steelmaking

Increased domestic steel production, exports and the recent coal miners strike have created a shortage of metallurgical coal which caused major integrated steel producers to cut back blast furnace operation. Since this means that hot metal production will be cut back, additional iron units come from scrap. According to IRON AGE (3–25–74) "Stocks of coke were down to 7.5 days supply—compared to more than 18 days supply a year earlier. For spot coal, buyers were paying up to $35 a ton, or seven times more than the price of a few years ago. Imported metallurgical coke was bringing $85 a ton—when available."

II. FERROUS SCRAP PRICES EFFECT ON ENVIRONMENTAL QUALITY

The strong demand for ferrous scrap and resulting price levels is having a positive effect on the nation's environment. Abandoned and junk cars, obsolete farm machinery and other types of metallics which can be seen cluttering the nation's streets and countryside are finding their way to scrap processing plants. The Institute has maintained for years that when the economics are right, metallic solid waste such as junk cars, will move to scrap processing plants. As a result, the tremendous backlog of obsolete ferrous scrap (estimated to be 750 million tons by the Battelle Memorial Insitute in 1969) can be manufactured into man-made resources for remelting by steel mills and foundries. Because of current price levels for scrap, this huge accumulation of obsolescent metallics scattered throughout the United States is beginning to be reduced.

III. DEVELOPMENT OF FERROUS SCRAP EXPORT MARKET

The export of ferrous scrap from the United States developed because the domestic consuming industries would not purchase all of the scrap iron that was available and other countries of the world needed this raw material.

The first occurrence of international demand was in the early 1920's. Since the United States was (and remains) a scrap surplus nation, trade was undertaken.

Although the tonnages cannot be compared to more recent times, the historical relationship of domestic needs for iron and steel scrap and the scrap processing industry's ability to process and ship scrap are matters of record. Since there are only two domestic industries which consume significant volumes of ferrous scrap—the foundry industry and the steel industry—export, by necessity, provided a third market for scrap iron which could not be used in this country.

Even though the scrap processor then and now would prefer to have his product purchased domestically, U.S. consumers of ferrous scrap, heavily tied to owned or controlled virgin materials, did not choose to use the scrap available. Other nations of the world had a need for scrap, which scrap was not wanted by U.S. consumers, and to survive as an industry, the scrap processor had no alternative but to enter the international market.

The exportation of iron and steel scrap began to reach more substantial tonnages in the mid-1950's. Again, it was a case of supply and demand—an excess of supply of scrap in the U.S. and a need for scrap by other nations of the world.

In the late 1950's and early 1960's, with the introduction of the basic oxygen furnace process of steelmaking, the domestic steel industry's need for purchased scrap further declined. Whereas the open hearth furnace required 40% to 50% scrap, the BOF used 25% to 30% scrap, most of which originated in the mill as "home scrap".

In 1956, domestic consumers purchased a then record 36.8-million net tons of iron and steel scrap; 6.3-million net tons were exported. It was not until 1969, *13 years later*, that the domestic consumers purchased more scrap than in 1956 and that was only by 100,000 net tons. Raw steel production increased from 115-million net tons in 1956 to 141-million net tons in 1969.

It was during these years that the American scrap industry was able to survive, although many firms went out of business, because of the foreign demand for iron and steel scrap. In fact, if it were not for these years of export trade, the scrap industry today would not be prepared to meet the needs of even its domestic customers.

It should also be noted that in 1956, iron ore imported jumped from 26-million net tons in 1955 to 34-million net tons, reaching a peak of more than 50-million net tons for the years 1965, 1966 and 1967 before declining to 46-million net tons in 1969.

What the scrap industry witnessed in those years was a definite drop in the domestic consumers' desire to purchase their product, a dramatic increase in the imports of iron ore and a need to cultivate world markets for ferrous scrap in order to stay in business.

It is most interesting that at no time during those years, did the scrap iron industry ask to curtail imports of iron ore to protect the domestic scrap industry. The Government was never asked to force the domestic steelmakers to rely first on scrap generated by the U.S. and only then to allow the importation of iron ore.

The tremendous tonnages of iron and steel scrap that accumulated in the form of obsolete automobiles alone was visable recognition of the metallic solid waste problems this country faced in the late 1950's and 1960's because there was a limited domestic market for the processed material. The scrap processing industry, has, by necessity, thus been forced to rely on a foreign market for its surplus scrap—which, if not recycled, undermines our efforts to achieve environmental quality.

And it is important to stress that the scrap industry prefers to sell its material to domestic users. This economic rationale may not be apparent. The shipper of scrap domestically is faced with fewer credit, shipping and liability problems in contrast to the magnified difficulties in each of these areas when foreign trade is involved.

(i) The average rail shipment is a car of 50 to 55 tons (even multiple car shipments amount to only 500 to 1,000 tons) whereas the typical ocean-

going ship today is 20,000 to 25,000 tons of carrying capacity. The costs of capital involved in the gathering, processing, and concentration of such volumes is immense as is the storage problem and scheduling required to insure that the material is dockside when the vessel arrives.

(ii) The paperwork and documentation necessary to export is infinitely more complex than the simple bill of lading to ship to a domestic user.

(iii) Credit is more readily established in this country than in foreign transactions.

(iv) Inspection of the material sold (all scrap sales are subject to receivers' weight and inspection) occurs thousands of miles away where little can be done, in contrast to the domestic scene where the inspection may occur near the origin.

(v) Vagaries of the sea, including the possibility of late ship arrival or departure, delayed loading, etc., each of which is very expensive in terms of demurrage ($3,000 per day per ship is not unusual) adds further hazards to the foreign trade area.

The recognition that the risks of trading overseas are greatly magnified has not stopped the export trade of scrap from this country. The reason for this is that the absence of viable domestic markets has required the development and maintenance of foreign markets to preserve the domestic scrap processing industry. In the absence of foreign demand, the scrap industry would be further atrophied and unable to perform as desired by the domestic consumers.

Moreover, like any buyers, foreign consumers have a right to rely on the stability of their supply sources. They cannot be expected to provide a market when the exporter needs it and to rely on other sources when the "fair-weather buyers" of the exporter suddenly find it to their advantage again to enter the scrap market. The capriciousness of suggestions to embargo ferrous scrap would seriously harm this market throughout the world. This is particularly true when such a policy can affect the future size and breadth of the foreign market. If foreign steelmakers become convinced that they will be unable to secure ferrous scrap on a regular basis, this will affect their long-term planning, causing them to become more committed to iron ore intensive facilities than otherwise would be the case.

World trade is not something that can be turned on and off; one customer is a valued asset that is not exploitable at the whim and fancy of other customers. The domestic steel industry is supplying first and primarily those customers who have remained loyal to the domestic steel producers during the past years of low steel demand and only then is it considering the orders of those customers who had strayed from their doors. The scrap industry is not setting such priorities; the scrap industry has met, is meeting and will continue to meet the needs of its domestic and foreign consumers. All that is asked is that the industry be permitted to produce and sell to all of its customers.

IV. SUPPLY OF FERROUS SCRAP

Much of the debate concerning the appropriateness of export controls with respect to ferrous scrap has centered on the question of whether this scrap was in short supply. Ferrous scrap was not in short supply in 1973, as evidenced by the ability of the scrap processing industry to meet an estimated demand of possibly as much as 60-million tons; nor is it short supply today, as evidenced by the fact that obsolete scrap continues to pour into scrap processing yards. In addition, the steel and foundry industries are showing by their actions at the present time that no shortage exists. Cancellations of orders now are occurring. Clearly, a purchaser who believes a commodity to be in short supply does not cancel an order unless he believes that supply is in excess of total demand.

Undoubtedly, the greatest deficiency in the present analysis of the ferrous scrap market is the availability of fully reliable data on the supply of ferrous scrap currently available for recycling. The Battelle Memorial Institute has estimated that 750-million tons of ferrous scrap has been discarded in the past and is theoretically available for recycling. In addition, Battelle estimates that only 60% of the ferrous scrap annually available for recycling was actually being recycled. The steel industry disputes these figures by arguing that much of this scrap cannot "economically" be recycled. Without becoming embroiled in a controversy as to the meaning of "economically recycled," it is clear that major

sources of obsolete scrap have not been recycled to the extent of their potential as the Battelle study and the accelerated flow of unprocessed scrap indicate.

V. EXPORT ADMINISTRATION ACT EXTENSION

The preceding extensive discussion of the specifics of the ferrous scrap industry has been necessary because of the vehement campaign for export controls on scrap iron being waged by the steel and foundry industries. Hopefully, the preceding discussion has served to place the numerous allegations in proper perspective. With this perspective in mind, attention now can be focused on the various proposals to amend the Export Administration Act. In summary, ISIS acknowledgesthe need for some form of export control authority to protect U.S. national security, foreign policy interests, and U.S. supplies of goods which actually are in short supply.

The Institute's experience with export controls during the past nine months suggest to it, however, that certain procedural safeguards are desirable to protect the interests of exporters both during the period when imposition of controls is under consideration as well as in the period after the Department of Commerce has determined to impose controls. Finally, ISIS supports proposals by Senators Mondale and Ribicoff to authoriez the use of retaliatory export controls against countries embargoing exports to the United States and suggests some technical modifications to this proposal.

A. Policy Considerations

The Institute's concern with the Export Administration Act involves only the short supply controls and the following comments are directed only to this aspect of the existing legislation. In evaluating the short supply controls in the 1969 Act, a number of policy considerations must be borne in mind. First, experience over the past year has shown that the Department of Commerce has the ability to impose controls when it determines them to be appropriate. No need exists for expansion of the Commerce Department's legal authority to impose controls.

Second, export control legislation always has dealt with the imposition of controls in general terms without attempting to single out any industry for Congressionally-imposed controls. The reasons for such an approach are obvious. Congressional action with respect to a specific commodity would of necessity force Congress to make a determination with respect to serious factual disputes. Under these circumstances, imposition of controls would be special-interest legislation dependent primarily on the number of legislators which that interest group could contact to present one side of the dispute. No adequate forum within Congress exists to afford all members the opportunity to hear all sides at any moment. No right to cross-examine assertions of the party pressing for controls exists in this situation. Because of all of these difficulties, the quasi-judicial determination of whether to impose controls has been left to the Department of Commerce under past export control legislation. This approach should be followed by the Congress in extending export control authority.[2]

Third, export controls have a harmful effect on the U.S. balance of trade since they reduce U.S. export receipts. A total embargo on ferrous scrap exports would have a negative effect on the U.S. balance of trade of almost $850,000,000. In fact, the negative balance of payments of more than $500,000,000 in 1973 resulting from iron ore imports are offset by the export of scrap iron. Steel industry statistics concerning imports of finished steel are irrelevant to the discussion of the balance of trade impact of a scrap embargo since these finished steel imports will occur regardless of a scrap embargo. The domestic steel industry admittedly cannot meet present demand and thus foreign steel imports will continue to flow into the U.S. without regard to ferrous scrap exports. The effect of a scrap embargo on the U.S. trade balance, thus, clearly is negative.

It is important to note that admitted shortages of metallurgical coal and finished steel exist, yet the Department of Commerce has not seen fit to impose export controls on either of these items. Why should the scrap industry, a small relatively insignificant segment of the U.S. economy be singled out for export controls? The obvious answer is that these controls are sought for the self-serving interests of the American steel and foundry industries.

[2] Bills providing for specific quotas or embargoes, such as H.R. 13763, H.R. 12293 and H.R. 12249, thus, should be rejected by the Subcommittee.

Finally, it should be noted that the steel and foundry industries are not suggesting that any export sale lost because of export controls will be offset by increasing domestic consumption. What these industries suggest is that export sales of ferrous scrap be reduced or eliminated so that they can benefit even further from present high demand levels. Such a policy in fact simply assures that ferrous materials which would have been recycled but for the export controls will become part of the solid waste problem in the United States.[3]

B. Suggested Revisions to the Export Administration Act

1. *Procedural Safeguards.*—Experience with export controls on ferrous scrap over the past nine months has led the Institute to the conclusion that further procedural safeguards with respect to short supply controls should be included in the Act. These additional procedural protections are especially appropriate at a time when the world economic system moves into a period when many raw materials are reported to be in short supply. Export embargoes can have disrupting and potentially harmful effects on U.S. firms which traditionally have engaged in international trade. Governmental action capable of such consequences should be undertaken only after the parties involved have had a reasonable opportunity to present their position. In addition, this action should be based upon an administrative record and should be subject to judicial review.

The Department of Commerce has sought to secure the information necessary for it to make its decision through informal technical advisory committee meetings. These meetings proved useful, but it would have been fairer to the parties involved if the decision actually to impose controls had been taken after a full evidentiary hearing where all parties were subject to cross-examination. Such a procedure is particularly applicable for a material such as ferrous scrap where a serious factual dispute has arisen as to whether a shortage in fact exists. In fact, a requirement should be added that the Department of Commerce prepare for review a supply situation study prior to considering imposition of export controls on any commodity.

In addition, judicial review of the short supply determination should be included in the Act. At the present time, the Secretary of Commerce's actions are exempted from the administrative procedure and judicial review provisions of the Administrative Procedure Act.[4] An exemption from formal procedural and judicial review requirements clearly is warranted for national security or foreign policy controls, but is unnecessary when the only issue involved concerns short supply controls. Section 7 of the Export Administration Act, thus, should be revised to remove short supply controls from the exemption provisions.

2. *Retaliatory Export Controls*

A number of proposals to grant authority for retaliatory export controls have received considerable attention lately, prompted in large part by the recent oil embargo. Senators Mondale and Ribicoff have proposed inclusion of such counter-embargo authority in the Trade Reform Act;[5] Senator Childs has proposed its inclusion in the Export Administration Act;[6] and the Administration has suggested that existing law gives it sufficient authority to impose retaliatory controls if it deems them advisable.[7] The Mondale proposal also would authorize the negotiation of an international agreement regulating the resort to export controls.

These proposals appear desirable and should be included in the Export Administration Act. Existing proposals should be modified, however, to provide more specific criteria as to when these retaliatory measures can be imposed.[8] The

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[3] A trigger mechanism device developed by the steel industry would have reduced total scrap actually processed during the four-year period from 1969 through 1973 by approximately 14-million net tons. This is a loss to the economy of between $700-million to $1-billion. Such legislation, thus, clearly is designed only to benefit the steel and foundry industries, not to insure maximum recycling.

[4] 50 U.S.C. App. § 2407.

[5] See Congressional Record, December 3, 1973 at S. 21683–5.

[6] S. 3030

[7] Testimony of Secretary Dent before the Senate Banking, Housing and Urban Affairs Committee on April 5, 1974.

[8] One proposal for such criteria would permit counter-embargoes only after a determination has been made that their imposition will not have significant, adverse economic, social or environmental consequences within the United States, and only if the foreign action precipitating the United States controls has had a significant effect on United States economic or foreign policy interests. This proposal also suggests that the legislation include a provision similar to § 203 of the Trade Reform Act which establishes a preferred order of import relief measures requiring the President to consider increased tariffs or quotas on imports from the offending country before resorting to export controls.

procedural safeguards discussed in Section V.B.1. of this statement also should be extended to retaliatory export controls.

3. *Commerce Department Proposals for Administration of Short Supply Export Controls.*—The Administration proposals for amendment of the Export Administration Act, H.R. 13840, include a provision authorizing the President to effectuate the policy of the Act by "whatever method of regulation he deems most appropriate, including, but not limited to, the imposition of an export fee or the auction of export licenses."

This proposal appears to be both unconstitutional and undesirable. Article I, Section 9 of the Constitution provides that: "no tax or duty shall be laid on articles exported from any state." Pursuant to the Export clause taxes have been struck down on foreign bills of lading,[9] charter parties,[10] and marine insurance policies.[11] The dicta in the cases indicates that the Constitution bans all forms of taxes on exports from the United States. For example, in *Fairbanks* v. *United States* [12] the Supreme Court stated:

> "The requirement of the Constitution is that exports should be free from any governmental burden. . . . In like manner, the freedom of exportation being guaranteed by the Constitution, it cannot be disturbed by any form of legislation which burdens that exportation. The form in which the burden is imposed cannot vary the substance.

Some have argued that the intent of the framers was to ban only those taxes on exports that are designed to raise revenues, and that, therefore, the proposed auction of export licenses is constitutional. This interpretation of the export clause is based on a misreading of the events surrounding the adoption of the clause at the Constitutional Convention. At the Convention, the delegates voted down an amendment which would have banned only those export duties imposed "for the purpose of revenue." [13] Moreover, the delegates rejected an amendment that would have permitted export taxes if approved by a two-thirds majority in both chambers of Congress.[14] In rejecting both these amendments, the delegates to the Constitutional Convention were expressing their view that the export trade of the United States should not be burdened in any way by government taxation. Accordingly, the imposition of export fees or the auction of export licenses would seem to be clearly unconstitutional, and permissible only if the Constitution were first amended to permit export taxes.

An auction system would be both unfair to established exporters and would cause serious market disruptions. While certainly not without some drawbacks, the historical pattern is probably the fairest allocation system now known since it assures that existing exporters will be permitted to continue their normal trade relationships. The only problems with this approach come with respect to newcomers to the market or with the historical period chosen. These two problems can easily be handled by setting aside a portion of the total export quota for hardship situations.

Moreover, an auction might permit a highly organized trading system operated by foreign nationals to corner the U.S. export market in a particular commodity to the exclusion of the U.S. firms and to the detriment of U.S. foreign policy interests generally.

V. SUMMARY

In summary, the Institute of Scrap Iron and Steel, Inc., recommends that the Export Administration Act be extended in its present form without any reference to specific commodities and with certain additional procedural safeguards. Limited authority to impose retaliatory export controls should be granted to the Executive Branch, but authority to administer export controls through a fee or auction system should not be granted.

Mr. ASHLEY. You have done very well, Mr. Landau.

Mr. LANDAU. Thank you, sir.

Mr. ASHLEY. One of the issues that was raised by the testimony presented this afternoon is whether or not there is in fact a shortage of

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9 *Fairbanks* v. *United States,* 181 U.S. 283 (1901).
10 *United States* v. *Hvoslef,* 237 U.S. 1 (1915).
11 *Thomas & Mersey Marine Ins. Co.* v. *United States,* 237 U.S. 19 (1915).
12 *Fairbanks* v. *United States,* 181 U.S. 283 (1901).
13 Farrand, *The Records of the Federal Convention of 1787,* 363 (1937). And see "Note: Constitutionality of Export Controls", 76 Yale L.J. 202 (1966).
14 See "Note: Constitutionality of Export Controls", *supra,* note 5 at 203.

ferrous scrap, and you maintain with some supporting evidence that there is not. The other panelists—I must say, if the record does not already show it, you are certainly outnumbered this afternoon—I think would certainly take issue with that testimony.

Let me again try to understand the relationship between price and availability, because that is troublesome to many of us. The escalation in price has been so dramatic this past year that the contention that supply is inelastic becomes almost conclusive. At what point should there be legitimate recourse to some form of relief based on escalating price as a result of a finite supply?

Mr. LANDAU. Well, we contend, Mr. Chairman, that there are approximately 750 million tons of unprocessed, unrecycled obsolescent metallics in the country today.

Mr. ASHLEY. I caught that, but I am not clear what price ferrous scrap must reach before it becomes available.

Mr. LANDAU. Well, we are experiencing the same inflationary impact that our customers, the steel and foundry industries have experienced in the past 20 years. In 1951, under Government direction a price was established that was considered equitable at that point in time of the Korean war. Under OPS schedules, the price for No. 1 heavy melting, which is a bellwether grade was established at $44 a ton as an average. Since then in the past 23 years, we have experienced the same inflationary costs of doing business including labor, power, equipment as other industries. I cannot answer your question directly as to what would be the price necessary to move all the requirements of our customers, but I would say it would be substantially higher than the figures for 1972, a year when steel demand was far less than today.

Mr. ASHLEY. There has been some testimony presented, I think by Mr. Cort or one of his associates, that there appears to have been with respect to coal—or was it with respect to scrap, Mr. Cort—a flat out, demonstrable shortage.

Mr. CORT. That was coal.

Mr. ASHLEY. Some of the amounts available for domestic consumption that were exported exceeded available supply.

Mr. CORT. That was coal, sir.

Mr. ASHLEY. Would that be true of scrap?

Mr. STAPLETON. In 1973, Mr. Chairman, approximately 44 million tons of scrap were consumed by the domestic steel industry, plus another 11 million tons went out for export, which is a total of 55 million tons. The scrap industry furnished this 55 million tons on a full, all-out basis.

The projection for this year is that the domestic steel industry will use 51.7 million tons, and added on the annualized basis of 2,100,000 tons a quarter, which means 8,400,000 tons a year, that brings a total of approximately 60 million tons of scrap to be furnished by the scrap industry.

I think our industry has some very strong reservations when the scrap industry states categorically that they can furnish any amount that is demanded by the steel industry. There are certain limitations to processing capacity. There are certain limitations to the movement of scrap, in terms of a shortage. There has been a complete dislocation of movement of scrap. Scrap buyers are reaching out and paying higher prices to move scrap from geographical areas which normally never serve the same consuming mills.

There are many illustrations of this and I will not belabor the point, but it is certainly indicated that a very definite distortion of sources of supply exists.

Another thing, most of us who buy scrap are professional buyers and during this inflationary period we have been buying many, many raw materials at abnormally high prices. However, there is no commodity that we buy, none, that has had a price surge that scrap has had in the last 14 to 16 months.

Mr. SMITH. Mr. Chairman, we would like to support that point of view presented by Mr. Stapleton and we believe we spoke to that in table I of our prepared statement to the subcommittee where we show the domestic receipts of scrap for the year 1972, the year 1973 on into the first quarter of 1974 with the prices paid in 150-mile radius of Youngstown, Ohio, and it very clearly demonstrates this inelasticity of scrap supply. I think it also suggests the inability of the scrap industry to increase that supply.

We would take sharp dispute with Mr. Landau's point of view that there is 750 million tons out there somewhere laying around just waiting to be collected, that if the price just gets magnetic enough that scrap will come in. It just is not so.

Mr. LANDAU. Mr. Chairman, if I may have a comment?

Mr. ASHLEY. Of course you can.

Mr. LANDAU. There is proof of my point that there is no shortage of scrap, although the price has increased. One example supporting our contention there is no shortage of scrap is that within the past 3 weeks the price of the top grade of ferrous scrap has dropped $40 a ton. Now, certainly, if there is a shortage, the price would not have gone down. Certainly if there were a shortage, astute buyers would not cancel contracts that they had on their books. Evidently, they feel that the supply will be adequate to meet their needs.

Mr. ASHLEY. What is the rejoinder to that, if I may ask?

Mr. MORRILL. Mr. Chairman, if I may?

Mr. ASHLEY. Would you be kind enough to identify yourself?

Mr. MORRILL. I am Jim Morrill, president, Continental Steel.

Our consumption of scrap in 1968 was 425,000 tons and it grew in 1973 to 582,000 tons. We recognized during the 5-year period that we were going to require more steelmaking capacity to meet the needs of the steel-consuming industry, and that therefore, we increased our melt shop capacity, our ingot capacity to from 390,000 ingot tons to 517,000 ingot tons, an increase of 33 percent, which shows that we have increased our capacity to meet the needs, and these increases came necessarily in aftermath of major capital expenditures. We are an insignificant company, too. But to the 3,000 families and to the 3,000 customers we are not insignificant.

In 1972 our scrap received to our scrap-on-order ratio—that is the amount of tons that we have shipped into the plant to the amount of tons we had on order—was 76 percent.

In 1973 that dropped to 66 percent. In the first 3 months of 1974, we are at a dramatic low of 55 percent. The 1973 low of 66 percent demanded the inventory reduction of 44 percent in order to meet the steelmaking demands.

It has been suggested here and previously that the lack of prompt delivery was the result of an insufficient number of gondola cars. However, that is not the case in Kokomo. Because of the nature of our own loading facilities, we are able to take all of our deliveries by truck. It simply was a delivery fact that scrap was not available to come in on the orders placed.

In addition to that, we have been plagued by the international market with appalling percentages of our nail market going foreign; 50 percent of our wire rods has gone foreign; 50 percent of our wire fence has gone foreign; 40 percent of our barbed wire has gone foreign; 17 percent of our industrial wire has gone foreign.

The recent example of what we have tried to do to meet our customer demands was at the request of Secretary of Agriculture Butz. We increased our bailing wire output by over 50 percent to meet the needs of midwestern and western farmers.

I cite these examples because the foreign supplier has not seemed likely or seemed willing to fill the void that is being created by the demand. But we at Continental Steel have been doing the best job we can to meet that, and I suggest that if we continue with the depletion of our inventories at the present rate, we will be out of scrap and I am afraid perhaps shutting down our facility.

One of the things that has been very frustrating to us is that we came to Washington and asked for controls. We were told that unless the facility was shut down, there would be no imposition of controls and we are afraid that has very little logic.

Mr. ASHLEY. Who was that?

Mr. MORRILL. That was the Department of Commerce.

Mr. ASHLEY. Mr. Landau suggests that there is evidence that there is not the kind of shortage that has been proposed and that this evidence consists of cancellations in the last 60 or 90 days, or whatever the period, plus the fact that the price of at least some grade of scrap has gone down quite substantially.

I would like to comment on that, if I might.

Mr. STAPLETON. Mr. Chairman, when the price of scrap has gone up anywhere from $20 to $25, $30 a month, there is no question about the fact that it went up too fast. The fact that it has gone down—and I take slight dispute with Mr. Landau—he might be able to select certain grades—but I would assume that the price of scrap has gone down about $30 a ton in the last 30-day period from a very, very high level. The price is still three times over what it was 14 months ago. On that basis I think it is quite apparent that there has been a very, very tight supply.

Now when we discuss whether there is an availability of scrap, what constitutes a definition of scarcity? Are we supposed to wait until a plant shuts down?

Mr. ASHLEY. No. I am trying to get answers to his proposition that the shortage, in his mind, has been overstated and this is demonstrated by the fact that the price has come down and that there have been cancellations.

Mr. STAPLETON. Well, I am not familiar with that part of scrap contracts. I know that as far as most major scrap buyers, a commitment is a commitment; cancellations do not take place. One swallows a bad

order, one swallows a good order and that is one function of a scrap broker, to do this also, but I do not know where anybody places an order for 5,000 tons of scrap and then if he sees the market going down, summarily cancels the balance of the order. That just does not happen in the trade, and I am very surprised that Mr. Landau has found illustrations of that nature.

Mr. Ashley. Then I would ask Mr. Landau, how prevalent have these cancellations been?

Mr. Landau. I will agree with Mr. Stapleton that the buying practice of all mills is not the same. The predominant cancellations that I have alluded to, Mr. Chairman, have come from some of the cold charge mills, not the integrated mills, and these cancellations are effective in the Midwest area. We have also been told of a mill in the Ohio area that has arbitrarily canceled an order in the middle of the month with a valid period of shipping left, and the cancellation was effective for economic reasons, period.

Mr. Ashley. I am going to have some more questions, but I am going to call on Mr. McKinney at this juncture.

Mr. McKinney. We seem to have an enigma in front of us starting with an administration that feels it can control end prices, and yet, not control the cost of the volatile raw materials or the export of the same that goes into them, which is always a fascinating philosophy.

We also, I think have to add, as I found out with the Bridgeport Brass Corp., that, believe it or not, they have to close down before they can get price relief for something of that type.

I would like to submit a question to all of you, to have you put some figures in the record, because it seems to me 13 months ago we went around and around about this, and I think that to start off again we are just never going to resolve this issue. I would like to use the word "volatile"—or how flexible is the price demand or the price of scrap?

We have had an awful lot of conversation, an awful lot of debate on that. I would like your impressions in writing, if I could have them when you get your copy of the subcommittee report to correct.

We seem to be confounding ourselves in this country. We have enough soybeans, as I often say, to carpet the United States from one end to the other, yet we have a shortage of soybeans. We have more oil in oil shale than all the rest of the reserves in the world put together, at least that we have found so far, and yet, we do not seem to know what we have to pay to get it out.

We are told by Mr. Landau that we have more scrap—and I would tend to believe him looking at our railroad trains as I go back to Connecticut—lying around in yards, but we do not seem to know what it takes to collect it all.

Will the elimination of wage and price controls which are coming to a far delayed death on the 30th of this month, will those eliminations get us to a price where we will supposedly mine these natural resources that we have, and if that price arrives, will you be able to afford it? Or will the price go down, as I tend to think it will?

Does anyone want to answer that extended question?

Mr. HEFFERNAN. What I would like to do, if I could, is make some observations, Mr. McKinney, that I think will kind of build, if you would allow me that privilege?

First, in terms of your opening. I can understand Mr. Landau's testimony. I do not agree with it. I can understand it and the principle that I think no one likes to kill the goose that lays its golden eggs.

A year ago we talked before this subcommittee, the mills and foundries people, and at that time we stated what were projections for 1973 in terms of what we saw was the domestic demand and export demand. At the time most of the objections were that our facts were wrong, that our projections were too high. The export level was too high. The administration at that time came in and indicated that there would be about 9 million tons. All our discussion was that it was going to be 12 million tons coupled with a 41 million ton domestic demand, an end total of 53 million tons.

Well, I want to point to our credibility, if I may. At that time we came in and said, there is no need for total embargo but there is a need to hold the export level to approximately 7 million tons, and we will get by the year without a problem.

Now that was a year ago. What happened?

We also said, if you do not do this, you will find chaotic conditions of quality, you will find a rapidly escalating price, tremendous inflationary impact, you will find mills and foundries curtailing production.

Here we are today sitting here telling you 11.3 million tons went out in export. Forty-four million tons were used in domestic demand. We saw prices go from 40 some dollars a ton to as high as $170, and regionally they tell me it got up as high as $185 and $188 and $190 in sections of the country.

In March we saw near-panic buying because obviously the buyers of scrap do not believe that there is the theoretically infinite amount of scrap available in any immediate, reasonable time frame where they might avail themselves of it.

Now I want to point to our credibility in this regard over this last year as to what would happen. We are now sitting here saying it has happened. All right. In terms of looking ahead the question is, is there a short supply or not? There is no question theoretically that there is a virtual reservoir of metal in this country in the millions and millions of tons. But are we willing to pay the price to bring that availability of metallics to the market within the next 10 months, 12 months, 2 years, 3 years.

We could take the dome off the Capitol and melt it in a cupola in my foundry, are we prepared to do that?

Again, only a percentage of the scrap market is obsolete scrap, and that is really what we are talking about. We are not talking about prompt; we are talking about obsolete scrap, the junked hulk automobiles. We might well be reaching the point where if we are talking about cleaning up the environment as the end objective of allowing these prices to go up, it might really be more economical to have a Government subsidized program to haul those hulks off than to allow the free market to drive the whole price of scrap for every type of

scrap up, as we have seen it happen, for the end purpose of cleaning up some junked autos. Again, when you are looking at junked autos you are often looking at a man's inventory and business. He is not yet ready to scrap that junk until he sells all the parts.

If we allow prices to get to $250, $275 a ton, I am sure we will really make an impact on the used car market very quickly.

We are talking theory in this area. We have repeatedly pointed out that in a set time there is a finite amount. Now the terribly difficult thing is that no one here can sit down and tell you exactly what that tonnage would be. We know we reached 54 million tons last year. We know we did it at an agonizing price in quality, in price, and by depleting the inventory of mills and foundries. Now we are suggesting again there ought to be a responsible dialog in terms of this coming year, and I think we ought to set the theory aside and say, what is that level, and is it acceptable at 300-percent inflation rates?

Mr. Ashley. Would the gentleman yield?

Mr. McKinney. I would be delighted.

Mr. Ashley. I just want to point out, Mr. Heffernan, that it took me 20 years of hard earned seniority to come by an office that had a view of the Capitol dome.

[General laughter.]

Mr. Ashley. I might say that right now Mr. Landau looks pretty good to me.

[General laughter.]

Mr. Landau. Mr. Chairman, if we include the Capitol dome that Mr. Heffernan has alluded to, there is a reservoir of 2,141 million tons, according to this study.

Mr. McKinney. We have an administration that has decided that the way to solve a sort of agonizing deficits of payments of balance of payments is to solve it with the short-term, wholesale slaughter of our natural resources, is of the agricultural products which I would consider volatile, and so on and so forth, without any basic thought to the long-range problems ahead.

There are those of us here in Congress who dislike controls totally and who have often said, we told you they would not work in the last year. But at the same time in trying to argue over what is obviously going to be a Presidential veto, a great many of us have put in a bill that would require that the Government through any of its agencies that are not doing the job now—if you think you have trouble with Commerce, you ought to try Agriculture—set up a domestic level of necessity in products that are volatile-based, raw materials of this Nation, and that that basic level of domestic necessity be monitored to the point where no export licenses could be delivered for any commodity once that commodity had reached within what we would call the "carryover period" of that level.

Do you think this would work in the scrap business?

Mr. Landau. One observation must be stated openly to this subcommittee. Our industries are interwoven with one another. We definitely have only one market for our commodity. That is the steel and foundry consuming industries.

We offer a large part of the raw materials needed in making their products. We must attempt to try to understand one another's prob-

lems, because the scrap industry recognizes the needs of the steel and foundry industries in this country, and we hope that they, too, will understand the problems that have faced us.

We have a very big problem that is a common, mutual problem, and that is the lack of railroad transportation equipment to haul our commodity to the mills and then to haul their commodity, the finished product, to their customers. We must find an avenue to get our commodity to them, our market.

There are literally hundreds of companies engaged in scrap processing today that are being frustrated by the fact that they cannot meet the needs of their local consumer, their foundries and mills, not because they are trying to gouge them by profiteering on the price of scrap, but because they literally cannot move scrap to that market.

This frustration is then compounded by some of our consumers who assert that the scrap industry has been driving up the price of a commodity we cannot deliver because of the freight car shortage. We must try to find the means with the help of Congress and the Department of Transportation to ameliorate that problem.

Now let me answer you directly about the export situation. In 1970, the first time that I appeared before the Department of Commerce, the steel industry and the foundry industry at that time chose to seek legislation to restrict and completely control the export of scrap. This was in January or February of 1970. Within 5 months the market for scrap fell precipitously, based on the lack of demand for the mills' finished products. Understandably, they cannot buy our products if they cannot utilize them to make the product they make.

We then were forced to turn to the export market, a market that did allow us to move some of the surplus material that the domestic mills could not take. Without a viable foreign market and without a viable scrap processing industry in coastal areas to supply that market, I can see our industry atrophied. That could be detrimental to all American citizens in this country, because we provide a service for removal and reclamation of metallics that cannot be done otherwise except through tax dollars.

In 1970 the domestic demand was 34 million tons. We exported 10.4 million tons, only one-half million tons less than 1973 which has been described as an historic record.

The reason that there might be some conflict or misunderstanding about the figures I quoted of 60 million tons of purchased scrap receipts in 1973 is the fact that the figures utilized all come from the steel-consuming industry, based on the Bureau of Mines preliminary reports of less than 100 percent of the industry. So the figure that the Bureau utilizes of 55 million tons, adjusted to reflect the previous Bureau of Mines mistakes over the past few years, leads to 60 million tons in 1973.

If we take the production capabilities of our industry in the past 4 years, we were able to supply 25 percent more of our product to the market, and we feel we have the capacity, we have the ingenuity, and we have the wherewithal, because we are constantly ahead as far as our equipment purchases are concerned, to meet all future needs.

Mr. McKinney. I have a feeling we have the building contractors coming up on this side.

Mr. CORT. Well, I am sure the steel industry is not asking for a permanent embargo on scrap export shipments. We are asking for temporary relief that is related to current developments, and along the lines that you have brought up, Congressman, one of our suggested amendments to the Export Administration Act of 1969 reads this way:

Secretary of Commerce shall appoint a technical advisory committee for any grouping of such materials or commodities determined to be volatile commodities under Section 3 of this Act to evaluate technical matters, licensing procedures, reporting requirements, world-wide availability, actual use of domestic production facilities and technology, and to advise the Secretary in the formulation of regulations for such commodities. Each such committee shall consist of representatives of the United States industry and government.

And that was the point you were making. This is a fluctuating problem.

Mr. MCKINNEY. Let me just get this statement in the record very briefly, and then I will turn back to the chairman for some more questions that he has.

I am violently anticontrols and I am violently antiembargo. I am not trying to place an embargo on. I am not agreeing with either one of you. But what I am simply saying is that Congressmen serving in this body, I am looking at a nation where people are saying, what is going on? I always thought that the expression "stagflation" was a pretty corny expression, but it is obviously getting to be a very true thing. Our economy is having the blahs and our prices are having the heights, and there are those of us here who have got to come to the conclusion that this is resulting directly from the policies of the administration which is selling off and creating an artificial inflation in the raw materials in the United States, plus a crisis in energy supply and energy costs.

Now, I am going to have a long, hard drink when wage and price controls go off on April 30 because they have been a farce. There is only one way this kind of thing works, and I think we all know it on both sides of that table. That is through a totally controlled economy. If you are going to control one thing, you have got to control everything.

We saw that in the fact that if you were under 16 employees, you were not controlled in your business, and yet you were controlled for awhile, that the end product of what they were selling you to go into it, and we could not get controls because our export sales were not controlled and everybody was selling overseas. We could not get any polystyrene feedstocks. We could not get anything, and we are still suffering from that.

But I figure about 6 to 9 months are available in an election year, when demagogery comes at a high price, if we do not get some of these problems solved before we go into a totally controlled economy, because that is what people are going to demand on the streets.

So I am simply saying and agreeing with both of you that something has got to be done because I will tell you this: I do not think that 208 or 207 million Americans, or whatever it is, are going to tolerate the combination of what they have now, which is recession with inflation, because of artificial shortages.

Mr. ASHLEY. Thank you.

I would just like to expand on that if I may, Mr. McKinney, and just direct a comment to Mr. Cort, or one of the other panelists.

It strikes me that we are faced with an anomaly. Many of you gentlemen—all of you, perhaps—join Mr. McKinney in welcoming the termination of controls. You are looking forward—at least, if I have been reading the mail of you or your associates—to a time when we will return to the market forces, when supply and demand can establish some degree of price stability; when we will reject the notion that, through controls, we can have, without distortions, a kind of stability, that, without jeopardizing the production of business to meet demand. At the same time, from many of the same voices, it seems to me, comes the caveat, "except when it comes to our particular industry, except when it comes to the world market forces." Then, there seems to be an exception: "protect us from the world market; protect us from the high prices that Japan is willing to pay."

Mr. Heffernan has said that at 300 percent of the price of scrap of a year or 2 years ago, there is still availability, but at a great cost to the American consumer. Is this not, to a very major extent, the operation of the law of supply and demand? Is this not what a free international market is all about? How do you justify an insistence upon free market operations with respect to your domestic operations, but when it comes to an item that is of great essentiality and is in heavy demand on the world market, you then seek the kind of protection that you are looking for today?

Mr. HEFFERNAN. Mr. Chairman, I tried to allude to that very directly in my opening comments and statements, and went at it. The problem we are talking about in an international market is that we tie our own hands as a nation. We are not playing the game as the other countries of this world are. It is not a free market in that sense. As I pointed out, we are waiting for one other, or any other nation in this area, to deal with scrap in the world market as we are.

We are the only nation, for instance, at the moment, exporting significant amounts of scrap. Second, as someone else pointed out here earlier, the Japanese come into this country to buy a percentage, a proportion of their scrap needs, not their total scrap needs. Now, to the extent that they are buying only a portion of their scrap needs, and they are cartel buying at that; I think, as Mr. Smith pointed out, they have a great advantage. What they do is drive up our entire free market price structure of all scrap. They are not correspondingly driving up the market of their entire scrap needs in their own country. It is the very fact that we are not really competing in a free world market for scrap that we have to come in and say, until we reach that day, you have to extend to us some of the same kinds of protections that other nations are engaging in.

Mr. ASHLEY. Then, why is it that all of the importuning that has directed toward me, at least, has been for total removal of all domestic controls; because it can certainly be said, can it not, that following your line of argument, that on a sector-by-sector basis, our U.S. economy varies considerably, that there certainly is prevalent in some sectors a much greater degree of competition than in others where little competition exists? However, there is still the same general acceptance, the

same general pleading, that controls not be maintained for those sectors, but that they may as well be removed.

Mr. HEFFERNAN. I am not sure I follow that, in terms of specifically ferrous scrap in an international market, but I am going to defer to someone.

Mr. ASHLEY. Well, you are very articulate in pointing out the lack of a free world market with respect to ferrous scrap. What I am suggesting is that, on a sector-by-sector basis, the cost of medical services, for example, might be found to be, as a sector of our economy, very different from other sectors.

Mr. HEFFERNAN. I find myself in a difficult position, because I am not sure but what I would not agree that that might be the case in that specific instance. The problem is, with each of these subject areas, they are very complex. They do not necessarily—that is, the rules that are applicable in each instance, I do not think, follow. At least I, in my own mind, cannot relate the two as being identical. I probably might very well come to a different conclusion if you were talking about health insurance, for example, in this country, as I would about the scrap problem. I think it is much more clear cut in the terms of what is happening internationally, and as you point out, in terms of the domestic market, we have not tried to draw those distinctions or call for controls. The only controls we have attempted to call for are simply a protection against what is unfair competitive practices internationally.

Mr. ASHLEY. You see, I take a modest view of the capability of the Congress in certain respects. I think that our ability, in a very sophisticated and delicate way, to adopt legislation that goes to the management of our economy is limited. I think it can be shown by the actions of this subcommittee and the Senate committee that there has been a tendency to reject out of hand, because of the enormous pressures of labor and management, any continuation in any form of standby controls, or of the Cost of Living Council to simply monitor wage and price data and phenomena.

Now, you see, for one side of the equation, we must understand this is about the extent of the sophistication of Congress. This is relevant, it seems to me, because what you are asking us to do, collectively—I assure you—who are in this position of lack of sophistication, is to take an assertive role with respect to export controls; in many respects, to pretend to a knowledge, to an expertise, to an availability of data on which to make decisions, that we simply do not have; just as we do not appear to have it when it comes to the management of our national economy. Has that occurred to any of you gentlemen, that what you really seem to be doing is transferring the delegation of authority about which Mr. McKinney feels strongly—I do not—the delegation of authority, within policy limits set by the Congress, to the administration?

There is only one reason that we have done that—and you have pointed this out in your testimony, I think, Mr. Landau—that the ability of the Congress vis-a-vis the administration to reach a judgmental decision of a sensitive nature is extremely limited—I mean, vis-a-vis that of the administration, where you have technocrats who are working 8 hours a day in very specialized areas of important na-

tional consequence. This is the reason that there has been the delegation in limited areas, in areas of trade particularly, areas of taxation to some extent. I question, to some extent, the wisdom of putting in concrete, setting in a legislative mold, a formula of one kind or another; because as Mr. McKinney has pointed out, the ability of the Congress to consider such matters is never in a vacuum. We are either always looking at an upcoming election, or we are looking at an irate public that is screaming about prices, about inflation, as well as other matters.

Where should we really look? I am not trying to dodge responsibility. I am trying to set policy guidelines that make some sense, that are realistic in terms of the facts that face us, within which we expect the administration to work.

Mr. HEFFERNAN. If I could, Mr. Chairman, just in answer to that, briefly. We are here, really, because in effect it is a court of last resort for us. We have gone to the administration for a long period of time. What we are asking for, in the nature of amendments to the act, is really a continuation. It is not a drastic change, or a drastic step.

Mr. ASHLEY. Mr. Heffernan, I do not mean to interrupt, but on page 5 of Mr. Cort's statement there is a suggestion that the Commerce Department impose an embargo on exports of carbon alloy and stainless ferrous scrap of sufficient duration—whatever that is—to insure an adequate supply, at what price I am not sure, for domestic consumers. Then, as a third, he poses an alternative to that in recommendation No. 2, and then 3 is a suggestion that the embargo be followed by a program limiting scrap exports to a maximum of 300,000 net tons a month, as distinct from, I believe, the 600,000 that was recommended by Mr. Smith, if I am not mistaken.

Mr. SMITH. Half a million net tons a month.

Mr. ASHLEY. So I just do not know what you mean.

Mr. HEFFERNAN. Well, I was specifically referring to the attached amendments, spelling out amendments to the act of 1969. I am sorry. I was not referring to the very special step, or act, in terms of talking about a temporary embargo. I was talking about those amendments specifically to the act of 1969. We saw, when the act of 1969 came into being in 1970, for instance, when there was a similar, but not nearly as severe, problem of an international steel shortage, shortages of scrap—at least, a strain in the supply of scrap—in that period of time. We avoided doing anything with the problem until it passed.

In effect, we are doing the same thing again in 1973 and 1974. We are assuming somehow, or gambling, I believe, in the administration, that there will be a downturn, and that the problem will disappear. But what we are saying is that it is at such a price that we really cannot afford it. What we are asking—indeed, what I am suggesting in these amendments—is only an extension where we say, look; so we do not repeat the cycle all over again, the Secretary of Commerce should have discretion to act.

Mr. ASHLEY. But you do not really want it tied to a price, do you, because you are operating now?

Mr. HEFFERNAN. I think it is very difficult to tie it to a price. Candidly, you know, we have looked at that, and it is very difficult, without being utterly inflexible, and simply—as our colleagues would contend—

simply coming in as a price control mechanism. No, we are not. We are trying to tie some reasonable balance between domestic and the international demands, where we do set a priority and the need for the priority really is, because we live in a world where we are not in a free international market. If we were, it might be a different situation. If you want to remove all of the antitrust rules of the Clayton and Sherman Acts, it might at least aid the situation in allowing somebody to compete.

Mr. ASHLEY. You certainly have a point. I think that is a little tough to handle, frankly, Mr. Landau.

Mr. LANDAU. I would like to get something on the record, if I may, Mr. Chairman.

Mr. ASHLEY. You may.

Mr. LANDAU. Thank you, sir.

I have heard through the years that the United States is the only country that exports scrap. I categorically refute this as being the fact. To our knowledge, there are at least 31 countries in the world that export scrap, although certainly not to the degree nor in the tonnages that are exported from this country. This is because scrap is one of our surplus commodities. Many East European countries export; countries such as Australia, Germany, France are exporting; African countries are exporting. So we are not the only ones.

Again for the record, Japan is not the only country that we sell to. Personally, I resent this constant allegation that it is only Japan that is a customer of U.S. scrap. There are many European countries that are buying scrap, such as Spain, the United Kingdom, Italy—countries which we would consider friendly. We cannot export to a country where we do not trade. We trade only with countries designated by the State Department or the Department of Commerce.

Mr. ASHLEY. I do not think that is really a question, Mr. Landau, and I would just say, for the record, I do not think there has been that kind of implication. If there has been I missed it entirely.

Mr. LANDAU. Well, then, let me allude to a statement that Mr. Heffernan made that somewhat surprises me, but possibly this is really the factor, and maybe this is really the point of contention between us. He mentioned earlier that what he is seeking is protection, because of our Government's policy toward foreign importation of steel, or unfair competition by importation. But they are seeking legislation against our commodity because of possibly what might be considered unfair competition for their product. I do not see the two, I cannot correlate the two; and I would also ask what they mean in their statement by a volatile commodity, a commodity which has previously been licensed——

Mr. ASHLEY. Well, I may say that I did not quite get any sufficient definition with respect to the suggestion that there be an additional category.

Mr. HEFFERNAN. The definition, if I could, Mr. Chairman, is in the proposed amendments, which are attached, and I asked that it be attached for the purpose of the amendment. If you like, I would spell it out, briefly, what we mean by the definition.

Mr. ASHLEY. Yes, I think it might be helpful.

Mr. HEFFERNAN. Really, for the purposes of this act, which would be the act of 1969, we would define the term "volatile commodity" to mean commodities, except agricultural commodities, which previously have been licensed, and export limitations imposed upon them, pursuant to the policy declared in section 3(2)(a) of the Export Act of 1969, which is the short supply section of 3(2).

Mr. ASHLEY. Well, that is kind of a self-serving definition.

Mr. HEFFERNAN. Let me go on—or any nonagricultural commodity which the Secretary determines need to be regulated under provisions of this section, to insure adequate domestic supply.

Now, our problem, of course, was how do you define volatility without opening the thing to hundreds of commodities which probably are not volatile? What we did, sure, is we looked at what has been troublesome in the immediate past time period in question. Those that have been particularly troublesome, we said, could immediately be defined. Of course, it was self-serving in terms of, we have a problem we are trying to cope with.

Mr. ASHLEY. Well, I understand the difficulties.

Mr. HEFFERNAN. We also left it open, that new commodities could be added.

Mr. ASHLEY. Well, maybe you should go back to the drawing board on that one, and give us an alternative, if you can, by the time we get to markup. I would like to have at least an alternative approach to volatility to consider, if that is possible.

Mr. HEFFERNAN. OK.

Mr. MCKINNEY. I would suggest, Mr. Chairman, that the definition could be, those base materials of industry and agriculture which are in a volatile world state, in a world where the underdeveloped nations are now beginning to demand a piece of the pie, and we are beginning to find some shortages. I think Mr. Heffernan brought out a point, and I wanted to help him out with you a litle bit. I am not taking his side, either, Mr. Landau, so do not get nervous.

Mr. LANDAU. I take it as it comes, sir.

[In regard to the colloquy above on the definition of the term "volatile commodity," the following letter was received from Mr. Heffernan for inclusion in the record:]

CAST IRON PIPE RESEARCH ASSOCIATION,
Washington, D.C., May 13, 1974.

Hon. THOMAS L. ASHLEY,
Chairman, Subcommittee on International Trade, House Banking and Currency Committee, Washington, D.C.

DEAR MR. CHAIRMAN: During recent hearings to consider testimony on export control legislation, we engaged in a brief dialogue about a proposal we, and all other scrap users, made for a new category of "volatile commodities" to be added to the Export Administration Act. You suggested I provide your Subcommittee with an alternative definition of "volatile commodity" to the one included in the amendments attached to my testimony.

I have studied the testimony of Mr. R. M. Cooperman, Executive Director of the Aluminum Recycling Association and have borrowed from his recommendations to form the enclosed alternate definition.

Cordially,

EDWARD D. HEFFERNAN.

For purposes of this Act, the term "volatile commodity" shall mean any non-agricultural commodity which the Secretary determines to be volatile in light of all economic factors which he considers relevant, including but not limited to:

(1) The existence or threat of a large rapid increase in the level of exports of the commodity based upon (A) the ratio of total exports of the commodity to available supply of the commodity, and (B) the percentage increase in exports of the commodity from a base period determined by the Secretary to be representative of historical export trends for the commodity.

(2) The existence or threat of a large or rapid increase in the domestic price of the commodity resulting, in whole or in part, from imports of the commodity; and

(3) The impact of existing or threatened short supply of the commodity on the production, capacity utilization, employment, and operating margins of particular domestic industries and on the domestic economy.

Mr. McKinney. I often think that Congress would have a 2½ hour debate to turn off the light switch, so I certainly do not want to see them controlling foreign trade, or a lot of other things. But I do think the problem, Mr. Chairman, that is being brought up here, is a problem that we have been alluding to for these long hours in these hard, leather chairs this week; and that is the problem where an administration has taken trade and removed it from the field of trade and located it in the field of diplomacy, which leaves these gentlemen and me totally confused. For instance, I was led to believe that you only loaned money to sell a product when a lot of people had that product, and you really wanted to sell it. In other words, you wanted to sell your sewing machine instead of theirs, and so you give a better credit deal. I cannot understand why, when everybody wants American wheat, we sell it on credit, when we should have gotten Russian gold, which we need. I cannot understand, Mr. Landau, how the administration can allow the exportation of scrap, or any other "volatile" commodity, when the administration does not demand reciprocity on the part of the foreign nation in allowing the finished goods that come from that raw material, or that reused material, in their nation.

Now, we have been playing games with the Japanese for a long time, and we know how they play, and we all sit here at this table—the chairman, myself, and all of us—and say, is GATT not a wonderful thing? But we know it is not, because the French cheat on it; we know the Italians cheat on it, we know the English cheat on it, and we do not cheat on it.

Now, I will get a call from Bill Eberle tomorrow morning—I can see that. But what I am trying to do is to illustrate that all of this problem simply comes from their exporting. I think a great deal of the problem started with this ridiculous farce we just went through on wage and price controls, which were here, and were not here, and were someplace else; but really, what you have happening is one nation playing by the Marquis of Queensbury rules, another nation is not, thus destroying any chance for a free, competitive situation. Our Government is mishandling your business. Instead of demanding the access we should get to their markets when we give them materials that are in short world supply; we not only give them the materials, we do not demand the market access, and we give them the credit to buy the materials.

That is what has got Congress in such a bad mood that I seriously question the future of the Eximbank. As I sit here, through these last

10 days, it seems to me that I do not want to put an embargo on the scrap business. But I want a level of domestic necessity. I think the Government owes you the freight cars. I have a very big scrap dealer in Bridgeport who happens to be a very good friend of mine—I know they cannot get scrap through New York City. You would commit suicide if you tried to get anything through to New York City on the Penn Central.

A brass company that moves brass porchings—the heaviest possible compaction products you can have—has to move them on trucks because they just simply cannot move them by rail. It is much easier for the company to take their scrap right across the road and dump it into a freighter and send it overseas. So we have our problems today, too, but I think that there is an obligation on the part of this Government to, No. 1, set a domestic level. We are going to have to get on the people in the Pentagon and tell them, look, you cannot give all of your contracts to General Electric, you are going to have them license it out to others, because we need *x* number of engine manufacturers, we need *x* number of airframe manufacturers, we need *x* numbers of tons of scrap, *x* numbers of tons of soybeans, *x* numbers to survive as a nation when everybody is trying to get a piece of the pie. If everybody wants your scrap—which I am sure Japan does—then we have to turn around to Japan and say, OK, we want distributorships over there for Frigidaire, General Motors, and so on and so forth. We do not want any of the nonsense that we cannot have distributorships. I think that is what we are trying to get at, and not to take sides, because frankly, your business is not worth a hootenanny without them, and their business is not worth anything without yours.

So, it seems to me, what we have got to do is make a happy solution for the country. My lecture is over on my feelings on this whole subject. Thank you for your kindness.

Mr. ASHLEY. Well, the responsibility of Mr. McKinney for the subcommittee, on which he has certainly served with distinction, is to reach a solution. Whether that will be a happy one or not depends on what we do, and where the witnesses stand. It was suggested that discussions between the very provocatively different views that have been expressed might be continued in another forum. I suggest that be done. In the absence of that being done, it will be done here, and I am not at all sure that the resolution will be a satisfactory one for the country or for you. My suggestion, therefore, is that if there is possibly any kind of reconciliation of the differences that have been given us today, I think it would not be a bad idea.

Mr. SHEEHAN. Mr. Chairman, I would like to make a few comments for the record, to clarify or elaborate.

Mr. ASHLEY. You may do so, sir. We are under a certain time stricture, but we can take a few more moments.

Mr. SHEEHAN. In 1970, when we came to the Department of Commerce to request that they take some action under the Export Administration Act, there had been an escalation in the price of scrap because of substantial exports, amounting to only some 50 percent. The Commerce Department began, and did establish some reporting re-

quirements to collect data. By the time the data was collected, the problem had faded away.

A month or two after that, they dropped the reporting requirements. Last year, when we came back in in early 1973, because of a similar export problem it took several months before they reinstituted the reporting requirements. Really, what the foundry industry and the Cast Iron Pipe Research Association is asking is for a setting up of a permanent system within the Department of Commerce for the collection of data, the gathering and analyzing of this data, and with input from industry, and for that type of technical advisory committee which would permit these groups here to get together under the auspices of the Department of Commerce to discuss our common problems.

We did last July try to establish a meeting between the foundry industry and scrap industry. We did invite a Commerce Department representative to attend. The Commerce Department would not authorize anyone to sit in on this meeting. The scrap industry was concerned because of possible antitrust implications. The meeting was never held, so that type of forum seems to be ruled out. If we could, through the wording in the suggested amendments of Mr. Heffernan, set up these committees within the Department of Commerce, this type of meeting could be held.

Mr. Ashley. I might say, Mr. Sheehan, that what you have said strikes a very responsive chord as far as I am concerned. That very provision was, of course, spelled out clearly in the legislation that we passed last year. Unfortunately, the Senate has not acted, and therefore it is not operative at this time.

I do thank all you gentlemen—yes, sir, Mr. Cort?

Mr. Cort. Just for the record, Mr. Chairman, the steel industry is not asking for new controls. The authority exists for export controls in the Export Administration Act, and I believe you will agree this act expresses the intent of the Congress when it was passed. All we are asking for is a better interpretation.

Mr. Ashley. I do not understand what you are saying. You say specifically the industry urges the Congress support the following actions previously requested of the Department of Commerce? It is true that they have the authority now, if they construe the act as you construe it. But when you suggest that the Congress support the following actions, and those actions include an embargo for a certain number of years, and then a flat limitation of 300,000 net tons a month, it seems to me that you are making proposals that go beyond the scope of the 1969 act.

Mr. Cort. Well, a temporary halt on exports of ferrous scrap has already been imposed as you know, in midyear last year. We are not asking to change the act. Our amendments were to free up the Department of Commerce in their interpretation of the intent of Congress in order that Commerce has more freedom of action to impose effective controls when necessary.

Mr. MORRILL. If I might add to that, Mr. Chairman, as I mentioned before, as the act was interpreted by Commerce, our plants had to shut down before they could impose an embargo. Now, certainly, that was not the intent of Congress, I am sure. But that apparently appears to be the interpretation.

Mr. ASHLEY. That is a point that we have noted, and will be raised when the administration witnesses appear before us next week.

Gentlemen, again I thank you very much indeed for your testimony. You have been very generous with your time and your contribution has been very valuable.

The subcommittee will stand in recess until 10 a.m. tomorrow morning.

[Whereupon, at 4:20 p.m., the subcommittee recessed to reconvene at 10 a.m., Friday, April 26, 1974.]

INTERNATIONAL ECONOMIC POLICY

FRIDAY, APRIL 26, 1974

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The subcommittee met at 10:30 a.m., pursuant to recess, in room 2128 Rayburn House Office Building, Hon. Thomas L. Ashley (Chairman of the subcommittee) presding.

Present: Representatives Ashley and Conlan.

Mr. ASHLEY. The subcommittee will come to order.

This morning the subcommittee will take testimony concerning proposals to control the export of agricultural commodities and fertilizer for reasons of domestic short supply.

We will first of all hear from a panel of witnesses focusing on grain. After these witnesses have given their oral summaries—I emphasize summaries because we are under time constraints—your prepared statements, gentlemen, will of course be inserted in the record. The subcommittee will then proceed along the same lines with the second panel of witnesses, focusing on the short supply of fertilizers.

Our first witness, representing the Independent Bakers Association headquartered in New York, is David Stroehmann of the Stroehmann Bros. Baking Co. in Williamsport, Pa.

If you will proceed, sir.

STATEMENT OF DAVID STROEHMANN, STROEHMANN BROS., BAKING CO., WILLIAMSPORT, PA., ON BEHALF OF THE INDEPENDENT BAKERS ASSOCIATION; ACCOMPANIED BY RICHARD B. KELLY, COUNSEL TO THE ASSOCIATION

Mr. STROEHMANN. On my left is Richard Kelly, counsel for the Independent Bakers Association, and I am Dave Stroehmann, representing the IBA and president of the Pennsylvania Bakers Association.

We are here today because of our continuing concern over a potential wheat shortage in the United States. We urge the passage of a bill such as H.R. 10844 to assure an adequate domestic supply of wheat.

From the independent baker's point of view, it has been a year of crisis, with the USDA statistics indicating a negative carryover during a portion of this year. Considering the fact that it takes hundreds of millions of bushels to fill the domestic pipeline and to prevent regional dislocations, there was indeed much evidence for concern. It was a year of brinkmanship. It must be remembered that wheat is our most

important crop. The American consumer was the potential victim of scarcities, and the actual victim of rapidly rising prices of wheat, bread, milk and eggs, and all the food products tied to our grain-based economy.

Secretary of Agriculture Butz appears to have been successful in the recent postponement of certain export commitments to prevent an actual major U.S.A. shortage of what for the 1973–74 crop year. The independent bakers of the United States are indeed grateful. However, we suggest that until the Secretary was able to obtain such commitments in the last month or so, no one knew whether or not we would run out of a basic commodity such as wheat.

IBA suggests that rather than behind the scenes secret policymaking, it is more appropriate for the Congress to clearly enunciate by the policy that the United States will maintain absolute minimum domestic reserves of wheat and other critical agricultural products. We believe that an increase of foreign demand for the U.S. grains will make such legislation more imperative in the future than it has been in the past.

We see no reason why a legislative requirement that the minimum domestic reserves be protected would be in conflict with international cooperation in dealing with the world shortage or not complementary to other means to assure adequate domestic grain reserves.

The wholesale and retail bakers of the United States and the entire trade believed shortages should occur during this year. Some specialty bakers did run out, and others were told by mills that deliveries of wheat through June could not be guaranteed. Considering the minimum need for several hundred million bushels carryover to meet ongoing domestic requirements for transportation from farm to mill to bakery and inventory requirements for wholesale and retail bakers, for the pastry makers, for the farm feed grain, et cetera, the bakers' primary current concern has been with availability of supplies, regardless of the prices. Without flour, the bakers cannot bake bread.

However, the effect on every consumer cannot be ignored when the price of wheat per bushel went from approximately $1.60 a bushel just prior to the wheat deal of 1972 to an average price per bushel of $3.58 in 1973, and in excess of $6 per bushel in 1974.

Experts have testified before the Senate Agricultural Committee on February 4, 1974, that the 1973–74 crop year has now become the most unusual on record. The 1974–75 crop year thereafter may prove to be even more abnormal, with the possibility of world scarcities that the United States will be unable to meet. Because of the so many uncertainties in the world food crop situation, no one can know beforehand.

An export control licensing system that is triggered when domestic reserves fall below a critical level is a means by which the Congress can, as a matter of policy, preserve minimum domestic needs and also assure the ability to allocate our finite supplies in a definite and reasonable manner.

The effect on the American consumer of the absence of a clearly enunciated agricultural export policy is obvious to everyone who buys food. We believe the lesson is that legislation should protect minimal necessary domestic reserves of food. The vulnerability of the country

should no longer depend upon the last-minute maneuvering of the Secretary of Agriculture.

IBA believes that the fast changing circumstances evident during the past 2 years require congressional action. We respectfully suggest that it is the Banking Committee that has the jurisdiction to protect the domestic economy from the excessive drain of scarce materials, including agricultural commodities, and a distinct duty to reduce the serious inflationary impact of foreign demand.

A bill that requires the Secretary of Agriculture to, one, within 90 days of the beginning of a crop year determine the quantity of such commodities available for export; and, two, delineate 40 percent of annual domestic usage for protection, would provide a procedure whereby all of the above objectives may be obtained. For instance, if in the 1974/75 crop year, we have 2.1 billion bushels of wheat produced and a domestic carryover on July 1, 1974, of, say, 200 million bushels, there would be 2.3 billion bushels available. If the annual domestic useage is found to be 780 million bushels for the year, then the required 40 percent domestic reserve carryover would be approximately 300 million bushels. This would still permit the United States to export more than 1.5 billion bushels of our total production and carryover of 2.3 billion bushels of wheat.

It is, of course, impossible to ship more wheat than we possess. Therefore, the only issue is whether we export the last of our reserves in a crop year. We believe it is reasonable for the Congress to mandate that the last 300 million bushels not be shipped out of the country during such year. An export licensing system would also permit more rational and humane allocation of the other 2 billion bushels, rather than relying solely upon a price rationing system.

The Associated Retail Bakers of American are testifying in favor of this position today. We are advised that the American Bakers Association also supports this position in principle and will be willing to submit a separate statement to the subcommittee.

The independent bakers in the United States appreciate the subcommittee's time and attention, and we are anxious to answer any questions.

[The prepared statement of David Stroehmann and Richard Kelly on behalf of the Independent Bakers Association, follows:]

PREPARED STATEMENT OF DAVID STROEHMANN OF STROEHMANN BROS. BAKING CO., WILLIAMSPORT, PA., AND RICHARD B. KELLY, COUNSEL TO THE INDEPENDENT BAKERS ASSOCIATION

We are here today because of our continuing concern over a potential wheat shortage in the United States. We urge passage of a bill such as H.R. 10844 to assure an adequate domestic supply of wheat.

There is no question that the U.S. and the entire world has seriously depleted global reserves of grain stocks. There is no question that the U.S. is being asked to help feed billions of people with expanded exportation of our agricultural products.

Evidence of the major change in circumstances from U.S. surpluses of wheat to wheat scarcity can be found in the U.S. Department of Agriculture announcement effective April 8, 1974, that the wheat export subsidy program was revoked. The wheat subsidy payment rate has been at zero since September 1972, when rapidly increased wheat prices and significant subsidy payments were made in

connection with the large sale of wheat to the Soviet Union (flour subsidy payments continued until December, 1972).

From the independent bakers' point of view, the year has been a year of crisis with the official U.S. Department of Agriculture statistics indicating a negative (impossible) carryover during a portion of this past year. Considering the fact that it takes hundreds of millions of bushels to adequately fill the domestic "pipeline" and prevent "regional dislocations", there was indeed much evidence for legitimate concern. It was a year of "brinkmanship". It must be remembered that wheat is our most important crop. The American consumer was the potential victim of scarcities, and the actual victim of the rapidly rising price of wheat, meat, bread, milk, eggs and all the food products tied to our grain-based economy.

Secretary of Agriculture Butz appears to have beeen successful in recently postponing certain export commitments to prevent an actual major U.S. shortage of wheat for the 1973/74 crop year; the independent bakers of the U.S. are indeed grateful. However, we suggest that until the Secretary was able to obtain such commitments in the last month or so, no one knew whether or not we would run out of a basic commodity such as wheat. Indeed, a private Government Accounting Office report to Congressman Robert H. Steele, Connecticut, on the soybean embargo of summer 1973, indicated that the soybean problem ". . . might have been ameliorated had Agriculture acted more decisively at an earlier date to develop a strategy for coping with the many contributing factors. . . . The United States has no commodity management program to insure that it will have at all times adequate domestic supplies . . . at reasonable prices. . . . If Agriculture adopted a more flexible export policy, it would be able to respond early to reports of unanticipated supply and demand conditions. With such a policy, it could consider milder, less disruptive control actions than export (embargo)."

In the Secretary of Commerce's statement to the House of March 26, 1974, supporting enactment of legislation before this Committee, the Statement of Purpose and Need recognizes that continuing authority is necessary to administer export controls. The Administration specifically points to the development of world-wide commodity shortages during the past year which have made it necessary for the U.S. to curtail exports of certain commodities in the interest of preserving domestic supplies. Indeed, the statement notes that export controls are currently in effect on several products and it is noted that a broad range of other commodities are currently in a tight international demand supply situation and international shortages of commodities can be expected to persist for the foreseeable future.

IBA suggests that rather than behind the scenes secret policy-making, it is more appropriate for the Congress to clearly enunciate, by legislation, a policy that the U.S. will maintain absolute minimum domestic reserves of wheat and other critical agricultural products. We believe that the increased foreign demand for U.S. grains will make such legislation much more imperative in the future than it has been in the past and, particularly in light of the testimony of the Department of Agriculture before the Senate Banking Committee on September 26, 1973 (wherein the Administration stated that three criteria of abnormal foreign demand, domestic scarcity *and* inflationary impact as set forth in 50 U.S.C.A. 2401 et seq. all need to be met to restrict exports), expanded legislation is clearly necessary.

We see no reason why a legislative requirement that minimum domestic reserves be protected would be in conflict with international cooperation in dealing with world shortages, or not complementary to other means to assure adequate domestic grain reserves.

1973/74 CROP YEAR—A YEAR OF SCARCITY

During this past crop year the weekly Statistical Reporting Service of the Department of Agriculture often indicated that there would be exports in excess of the remaining U.S. wheat carryover on hand at July 1, 1974. The wholesale and retail bakers of the United States and the entire trade believed shortages were likely. Considering the minimum need for several hundred million bushels carryover to meet ongoing domestic requirements for transportation from farm to mill to bakery, and inventory requirements for wholesale and retail bakers, for pasta makers, for farm feed grain, etc., the bakers' primary concern has had to have been with the availability of supplies regardless of the prices. Without flour, bakers cannot bake bread.

However, the effect on every consumer cannot be ignored when the price of wheat per bushel went from approximately $1.60 just prior to the Russian wheat deal of 1972, to an annual average price per bushel of $3.58 in 1973, and in excess of $6.00 per bushel in 1974.

The International Economic Report of the President transmitted to the Congress February, 1974, indicates at page 52, that "the 1972/73 world trading season for wheat and feed grains was one of the most unusual on record." Experts have testified before the Senate Agricultural Committee on February 4, 1974, that the 1973/74 crop year has now become the most unusual on record, and the 1974/75 crop year and thereafter may prove to be even more abnormal with possible world scarcities that the U.S. will be unable to meet. Because of the so many uncertainties in the world food crop situation, no one can know beforehand. An export control licensing system that is triggered when domestic reserves fall below a critical level is a means by which the Congress can, as a matter of policy, preserve minimum domestic needs and also assure the ability to allocate our finite supplies in a steady and reasonable manner.

We believe that such a system will still permit the U.S. farmers to expand production to maximum and allow maximum access to world markets without a countervailing fear and perhaps unwarranted interference due to what otherwise may be threatened grain scarcity.

IBA recognizes that we may be exporting the majority of our wheat production for the foreseeable future; that exports are important for stability of farm prices and in maintaining a proper balance of payments with foreign countries; and that these exports should not be subsidized at such a price that the domestic consumer in this country is forced to pay the price. We believe that the Department of Agriculture should be compelled to monitor existing supplies so that we know exactly where we stand at all times, including our ability to transport both exports and domestic supplies.

IBA urges the entire Congress that it is in the interest of all of the people of the U.S. that we expand our farm production and, in order to cause this to happen, the farmer must be assured of an adequate price for his product.

IBA believes that major fluctuations in agricultural commodity prices, as during these past two years, do not serve the long-term interests of the farmer, baker or consumer.

We have just passed through two years of wildly fluctuating commodity prices, with threatened and actual scarcities of basic commodities that are produced by and required in the United States. The price of a bushel of wheat, for example, increased 400% these past two years and has now backed off to about 250% of June 1972 prices.

The effect on the American consumer of the absence of a clearly enunciated agricultural export policy is obvious to everyone who buys food. Detailed examples can be found in the Private *General Accounting Office Study of Soybean Embargo of June 1973*, dated March 22, 1974, referred to above, *and* the review of the *Russian wheat deal of June 1972, in James Trager's book "Amber Waves of Grain"*. We believe the lesson is that legislation should protect minimal necessary domestic reserves of food. The vulnerability of the country should no longer depend upon the last minute maneuvering of the Secretary of Agriculture.

In summation, we believe that the Congress has a continuing obligation to both protect the interests of the American farmer as in the best interests of the nation, and simultaneously see that the American people have an adequate supply of food at reasonable prices. We believe that the vastly changing circumstances evidenced during the past two years require Congressional action to assure these ends. We respectfully suggest that it is the Banking Committee that has the jurisdiction to protect the domestic economy from the excessive drain of scarce materials, including agricultural commodities, and a distinct duty to reduce the serious inflationary impact of foreign demand.

A bill that requires the Secretary of Agriculture to, (i) within ninety days of the beginning of a crop year, determine the quantity of such commodities available for export and (ii) delineate 40% of annual domestic usage for protection would provide a procedure whereby all of the above objectives may be obtained. For instance, if in the 1974/75 crop year we have 2.1 billion of bushels of wheat produced and a domestic carryover on July 1, 1974, of, say, 200 million bushels, there would be 2.3 billion bushels available. If the annual domestic crop is found to be 780 million bushels for the year, then the required 40% domestic reserve carryover would be approximately 300 million bushels. This would still

permit the U.S. to export more than 1.5 billion bushels of our total production and carryover of 2.3 billion bushels of wheat. It is, of course, impossible to ship more wheat than we possess; therefore the only issue is whether we export the last of our reserves in a crop year. We believe it reasonable for the Congress to mandate that the last 300 million bushels not be shipped out of the U.S. during such year. An export licensing system would also permit more rational and humane allocation of the other 2 billion bushels rather than relying solely upon a price rationing system.

The Associated Retail Bakers of America are testifying in favor of this position today. We are advised that The American Bakers Association also supports this position, and will be submitting separate statements to the Committee.

The independent bakers of the United States appreciate the Committee's time and attention and are anxious to answer any questions.

Mr. Ashley. Thank you, sir.

Our second witness this morning is William A. Quinlan, general counsel of the Associated Retail Bakers of America.

STATEMENT OF WILLIAM A. QUINLAN, GENERAL COUNSEL, ASSOCIATED RETAIL BAKERS OF AMERICA

Mr. Quinlan. Thank you, Mr. Chairman.

I will highlight my statement, as you requested.

We are here in support of legislation to assure adequate supplies of wheat and other food commodities for U.S. consumers.

Now, the retail bakers are the ones who produce products for direct sale to the consumer across their own counters. In company with their customers, they have been going through a traumatic experience since the Russian wheat deal of the summer of 1972 when, before USDA knew what was happening, over a fourth of the U.S. wheat crop had been committed, along with great quantities of soybeans, corn, and other grains.

Without knowing that, the Department extended the Russians one-half of a billion dollars of credit for the purchases, and they provided subsidies in order to make possible the price of $1.63 a bushel, and there was a subsidy in order to help move the grain and carry it away in U.S. ships.

Wheat shipments in fiscal 1973 were almost 96 percent greater than the year before, including 348 million bushels to the Soviet Union.

Wheat and other grains are a base for our whole economy. The Russian wheat deal set off staggering increases in ingredient costs for bakers and other processors and in food costs for consumers. According to ingredient prices in Chicago that are compiled there by our association as of January 15 of each year, white bread flour rose from 1972 to 1974 by 79 percent. Regular cake flour rose by 110 percent. Frozen whole eggs rose by 82 percent, regular hydrogenated shortening by 51 percent, and nonfat dry milk by 61 percent.

The repercussions, aggravated by other factors, of course, still continue. In the first 3 months of this year, the cost of living index rose at an annual rate of 14½ percent, the greatest since 1951.

With all that, the figures on export sales which the Department of Commerce had belatedly started to compile and release showed in the fall of 1973 a total of exports and domestic use exceeding the total wheat supply for the crop year ending June 30, 1974, even with no allowance for quantities in the pipelines or carryover. In other words,

those figures showed that we would run completely out of wheat before the summer of 1974.

The bakers and others, including, for example, the chairman of the Chicago Board of Trade, therefore began to call for export controls to avert a shortage.

Despite those figures, USDA in September 1973 still predicted a July 1, 1974, carryover of about 300 million bushels, on the assumption that export shipments would fall short of reported export sales by more than that amount, but the Department would provide only vague assertions to that effect and no real evidence or assurance that its predictions rather than the Department of Commerce reports should be accepted.

The concern of industry intensified as USDA backed away from its prediction of a 300 million bushel carryover, reducing that in October to 250 million, in December to 210 million, and early this year to 178 million.

In the meantime, the Department took what appeared to be the emergency measure of asking the Tariff Commission to remove or suspend the limitation on wheat imports, although inconsistently it told the Commission in the very same breath, "it is unlikely that substantial quantities of wheat and milled wheat products would be imported into the United States."

The Department also began to ridicule publicly the concern of bakers, saying they should have bought wheat or flour instead of letting exporters buy it.

A USDA representative told a meeting of our retail bakers in October that even if the carryover were to fall to 100 million bushels, it would be adequate, causing us to wonder whether the Department had any real understanding of the matter.

Another USDA representative wrote to a Member of the Senate that the 1947 carryover was only 84 million, without mentioning that that was the time of a wheat and feed shortage which caught the Department by surprise—there again, too—in February 1946, as a result of which the admininstration had to declare an emergency. It took steps which included long extraction, dark flour, and the restricting of flour production to 75 percent of the previous year, and meatless and wheatless days. Neither did the Department's representative point out to the Senator that 84 million bushels then were the equivalent of about 124 million now because of increased population.

More recently, deferrals or cancellations of export sales have reduced the announced totals of exports already shipped or committed for shipment during the current crop year enough so "the market," as the term goes, reportedly has made a judgment that the United States will have enough left to get by, that USDA has worked its way out of the critical situation, or has lucked-out, after all. We still do not see assurance of that, but apparently it is the consensus of those who deal in commodities.

So the Department of Agriculture, after a high-pressure promotion of export sales, ends up by having to persuade buyers to postpone the agreed deliveries or to cancel the sales. We hope the Department will succeed sufficiently to avert the threatened shortage of bread and other wheat foods. But we respectfully submit that this is no way to

run a government. Certainly it has taken a toll of the nerves and resources of all who have responsibilities in regard to food supplies for the United States.

We hope this subcommittee, in its wisdom, will recommend effective legislation to prevent a recurrence of this, to assure adequate supplies of wheat and other food commodities for domestic use.

It is wise, even if we did not have the Biblical lesson of Pharaoh and Joseph, to store grain during years of plenty so as to have it during years of famine. Perhaps that will be done eventually on a world basis, but it should be done for our own country without delay.

We are not wedded, Mr. Chairman, to details of such legislation. We do believe that the bill H.R. 10844 is a good basis for consideration.

An especially good feature of that bill, in the light of our experience during the present crop year and the preceding one, is that it would not be left to the Secretary of Agriculture to decide what is a "reasonable carryover"; the bill itself would define that as 40 percent of total domestic use during each prior year.

I have been through the other bills, Mr. Chairman, that were provided by you prior to the hearing, and in our judgment H.R. 10844 is the best of the lot.

We certainly are not against exports. Retail bakers are part of the economy, just as are farmers and all other Americans, and efficient production, profitable exports, and adequate and profitable domestic supplies, all are important to a healthy economy. There is no inconsistency between exports and provision for domestic needs. There is no conflict of interest between farmers, processors, distributors, and consumers. The farmer, too, depends on a healthy economy, and he will suffer from shortages, inflation, and chaotic government which makes orderly planning excessively difficult or impossible.

Your subcommittee, we respectfully believe, has a great opportunity to serve the interests of all—farmer, industry, labor, and the consumer—by recommending H.R. 10844 or similar legislation.

Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Quinlan, on behalf of the Associated Retail Bakers of America, follows:]

Prepared Statement of William A. Quinlan, General Counsel, Associated Retail Bakers of America

I am William A. Quinlan, of Annapolis, Maryland, appearing as General Counsel of the Associated Retail Bakers of America in support of legislation to assure adequate supplies of wheat and other food commodities for United States consumers.

We much appreciate this opportunity to appear and submit our problems and suggestions.

The Associated Retail Bakers of America ("ARBA") is the national nonprofit membership association of retail bakers,—those who produce bread and other bakery foods for sale across their own counters directly to consumers.

I have been associated with the baking industry in various capacities during all of my working life, and with ARBA during most of it.

In company with their customers, retail bakers have been going through a traumatic experience since the Russian Wheat Deal of the Summer of 1972.

The Russians bought quietly, without the knowledge of most Americans,—without the knowledge of any Americans as to the total extent of the purchases,—including the United States Department of Agriculture.[1] Before USDA

[1] The circumstances are well and interestingly recounted in "Amber Waves of Grain" by James Trager (Arthur Fields Books, Inc., Distributed by E. P. Dutton & Co., Inc., New York: 1973).

knew what was happening, over a fourth of the United States wheat crop had been committed, along with great quantities of soybeans, corn and other grains.

Not only did USDA not know how much wheat was being sold. Without knowing that, it extended the Russians a half-billion dollars of credit for grain purchases at any time during a three-year period,—loans to be repaid later with devalued dollars. Neither USDA nor the White House knew at that time, July 8, 1972, the massive purchases that were being made out of the 1972 crop. Nor did American farmers, processors or consumers. Without knowing that, USDA guaranteed the Russians a wheat price of about $1.63 a bushel, f.o.b. Gulf ports, the difference between that and actual market prices to be paid as an unlimited subsidy by the American people,—a subsidy which had reached 47¢ a bushel by August 23, 1972, when a surprised USDA decided to reduce and then eliminate it.

Even after the Russians secretly had made almost half of their wheat purchases, in July, the Secretary of Agriculture thought it was corn they wanted. "They have plenty of wheat for now * * *," he said.

Americans also were subsidizing the merchant marine by almost 26¢ a bushel to carry away the grain.

Wheat shipments in fiscal 1973 were 1,126 million bushels, or 95.6% greater than the year before, including 348 million to the Soviet Union, 43 million to Eastern Europe, 22 million to Red China, and 124 million to Japan. (USDA "World Agricultural Production and Trade," August, 1973).

Wheat and other grains are a base for our whole economy. The Russian wheat deal set off staggering increases in ingredient costs for bakers and other processors and in food costs for consumers.

According to ingredient prices in Chicago computed there by our association as of January 15 of each year, white bread flour rose from $8.54 per cwt. in 1972 to $15.26 in 1974, or 79%. Regular cake flour rose from $10.00 in 1972 to $21.00, or 110%. Frozen whole eggs rose from 33¢ a pound to 60¢, or 82%. Regular hydrogenated shortening rose from 28½¢ a pound to 43¢, or 51%. Nonfat dry milk from 42.24¢ to 68¢, or 61%.

The repercussions, aggravated by other factors, still continue. In the first three months of this year the cost of living index rose at an annual rate of 14½%, the greatest since 1951.

With all that, the figures on export sales which the Department of Commerce had belatedly started to compile and release showed in the Fall of 1973 a total of exports and domestic use exceeding the total wheat supply for the crop year ending June 30, 1974, even with no allowance for quantities in the pipelines or carryover.

In other words, those figures showed that we would run completely out of wheat before the Summer of 1974.

Bakers and others, including the Chairman of the Chicago Board of Trade, therefore began to call for export controls to avert a shortage.

Despite those figures, USDA in September, 1973, still predicted a July 1, 1974, carryover of about 300 million bushels, on the assumption that export shipments would fall short of reported export sales by more than that amount, but it would provide only vague assertions to that effect and no real evidence or assurance that its prediction rather than the Department of Commerce reports should be accepted.

The concern of industry intensified as USDA backed away from its prediction of a 300 million bushel carryover, reducing that in October to 250 million, in December to 210 million, and early this year to 178 million.

In the meantime USDA took what appeared to be the emergency measure of asking the United States Tariff Commission to remove or suspend the limitation on wheat imports, although telling the Commission "It is unlikely that substantial quantities of wheat and milled wheat products would be imported into the U.S. * * *."

The Department also began to ridicule publicly the concern of bakers, saying they should have bought wheat or flour instead of lettin gthe exporters buy it.

A USDA representative told a meeting of retail bakers in October that even if the carryover were to fall to 100 million bushels it would be adequate—causing us to wonder whether the Department had any real understanding of the matter.

Another USDA representative wrote to a member of the Senate that the 1947 carryover was only 84 million—without mentioning that that was the time of a wheat and feed shortage which caught the Department by surprise in February 1946, when the Administration was forced to declare an emergency,

and ordered milling of "long extraction" flour, limited inventories of wheat and flour, appointed a "President's Famine Emergency Committee" to reduce domestic consumption of wheat by 40% through a crash program including small loaves and thin slices, and restricted flour production to 75% of the previous year. Again, in the next crop year, the President found it necessary to appoint a "Citizens Food Committee" which called for emergency measures including "meat-less" and "wheat-less" days. Neither was it pointed out in the letter to the Senator that 84 million bushels then were the equivalent of approximately 124 million now, because of increased population.

The Wall Street Journal reported on January 17 that "while Agriculture Secretary Earl Butz pooh-poohs talk of wheat shortages, many of his underlings are working frantically to scrape up enough of the grain to keep bread prices from going through the roof this spring. * * * What the government measures add up to is that the U.S. is depending on foreign countries to rescue it from what could be a crisis—caused by shipping too much wheat to foreign countries in the first place. If these countries don't come through and the menacing statistics on export commitments are correct, 'we could be in very serious trouble,' says Don Paarlberg, director of the agricultural-economics division of the Agriculture Department."

Members of the House and Senate fared no better than bakers in trying to get hard facts from the Department. One Representative put it well when he said on the floor he could get nothing but "bureaucratic bushwa."

More recently, deferrals or cancellations of export sales have reduced the announced totals of exports already shipped or committed for shipment during the current crop year enough so "the market" reportedly has made a judgment that the United States will have enough left to get by—that USDA has worked its way out of the critical situation, or has lucked-out, after all. We still don't see assurance of that but apparently, it is the consensus of those who deal in commodities.

Milling and Baking News reports in its April 16 issue that the "current outlook is for carryover of 1973 crop wheat in the U.S. next July 1 of about 125 million bus. compared with official U.S.D.A. forecast of 180 million bus. This is in distinct contrast with data of barely two months ago, which showed a 'minus carryover' of about 65 million bus. In the past five weeks, aggregate of undelivered export sales and actual shipments have been reduced by 104.1 million bus., reflecting success of U.S.D.A. efforts to negotiate deferrals of shipments into 1974–75 season and cancellation of sales to unknown destinations."

So the United States Department of Agriculture, after highpressure promotion of export sales, ends up by having to persuade buyers to postpone the agreed deliveries or to cancel the sales. We hope the Department will succeed sufficiently to avert the threatened shortage of bread and other wheat foods. But we respectfully submit that this is no way to run a government. Certainly it has taken a toll of the nerves and resources of all who have responsibilities in regard to food supplies for the United States.

We hope this Committee in its wisdom will recommend effective legislation to prevent a recurrence, to assure adequate supplies of wheat and other food commodities for domestic use.

It is wise, even if we did not have the Biblical lesson of Pharaoh and Joseph[2] to store grain during years of plenty so as to have it during years of famine.

Perhaps that can be done eventually on a world basis, but it should be done for our country without delay.

We are not wedded to details of such legislation.

We do believe that the bill H.R. 10844 is a good basis for consideration.

It would add to the Export Administration Act of 1969 a new "TITLE II—AGRICULTURAL EXPORT CONTROLS."

It would require the Secretary of Agriculture each year to determine for each agricultural commodity the estimated production, the estimated quantity needed for domestic consumption, the estimated quantity needed for a "reasonable carryover," including a reasonable quantity for disaster relief assistance and other emergency conditions, and the remaining quantity available for export.

It would provide for export licensing by the Secretary, and allocation of the available quantity of any commodity among foreign countries on a basis of certain factors and after consultation with other agencies and persons.

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[2] Genesis 41 : 14–57.

An especially good feature of H.R. 10844, in the light of experience during the present crop year and the preceding one, is that it would not be left to the Secretary to decide what is a "reasonable carryover;" the bill itself would define that as 40% of total domestic use during each prior year.

We certainly are not against exports. Retail bakers are part of the economy, just as are farmers and all other Americans, and efficient production, profitable exports and adequate and profitable domestic supplies all are important to a healthy economy. There is no inconsistency between exports and provision for domestic needs. There is no conflict of interest between farmers, processors, distributors and consumers. The farmer, too, depends on a healthy economy and will suffer from shortages, inflation, and chaotic government which makes orderly planning excessively difficult or impossible.

Your Committee, we respectfully believe, has a great opportunity to serve the interests of all—farmer, industry, labor and the consumer—by recommending H.R. 10844 or similar legislation.

Mr. ASHLEY. Thank you very much, Mr. Quinlan. I can assure you the subcommittee will treat seriously the legislative proposals that you have referred to.

Our third witness is Samuel Sabin, vice president of Continental Grain Co. here in Washington, D.C., speaking on behalf of the National Grain and Feed Association.

Mr. Sabin?

STATEMENT OF SAMUEL H. SABIN, VICE PRESIDENT, CONTINENTAL GRAIN CO., WASHINGTON, D.C.; ON BEHALF OF THE NATIONAL GRAIN AND FEED ASSOCIATION

Mr. SABIN. Mr. Chairman and members of the subcommittee: My name is Samuel H. Sabin, and I am vice president of Continental Grain Co. in Washington, D.C. Today I am appearing on behalf of the National Grain and Feed Association and as chairman of their International Trade Committee. This association is nationwide in scope and has over 1,000 members whose operations include every aspect of the grain and grain-processing industry including handling, merchandising, and exporting.

Mr. Chairman, we appreciate the opportunity of presenting views in connection with export controls. Your notice of hearing stated several other subjects would be considered, but we are particularly interested in the extension of the Export Administration Act of 1969, as amended, and our remarks are confined to this law. Particularly, we have noted H.R. 13840, which was introduced by request, and represents the administration's position on the extension of the act. We have observed also that numerous bills have been introduced in the House to amend the Export Administration Act in regard to export controls.

During the past year there has been agitation for the imposition of export controls on grains and oilseeds. There was the temporary reduction of exports of soybeans and oilseed products from June 15 to September 30, 1973, resulting in the United States coming under fire as an unreliable supplier of commodities. Sales contracts were violated, transportation and storage arrangements were disrupted, and there was general chaos in the marketing and handling of soybeans and oilseed products. The U.S. soybean producers are now facing increased competition from foreign supplies as a result of the embargo.

A more recent example occurred in the case of wheat. Following the soybean experience, a monitoring system was initiated for all export sales of grains and soybeans. This system went into effect in October 1973. As export sales were reported in succeeding months, it appeared early in the calendar year that wheat supplies might be inadequate to meet demand as was determined by historical prices. The price situation was further aggravated by the European Community and Canada being somewhat reluctant sellers of old crop wheat for nearby delivery. As a result, there was heavy buying of wheat for domestic and export needs, and there was substantial increases in price. These developments resulted in the agitation for the imposition of export controls on wheat.

An analysis of the estimated export sales indicated considerable overbuying. There was also the growing appreciation of greatly increased production in the United States and other countries. The result was an easing in the supply situation and at this time there is little concern over our supplies. Prices have also been much easier even to the extent of causing concern among some wheatgrowers.

Export sales of grains and soybeans are now reported on a weekly basis to USDA and weekly reports of such sales are issued. This gives a better basis for determination of export demand that existed prior to the soybean embargo. However, the monitoring system reflects trends and not final figures as to deliverable quantities. This is due to the competitive nature of markets and constant adjustments between buyers and sellers. Even a requirement of Government approval of each export sale would not assure complete reliance as to quantity or destination.

Out of these two examples it seems we must realize that export controls on grains and oilseeds are a most drastic measure. Emergency conditions of short supply of grain and oilseeds might require temporary controls. We would favor a 2 or 3 year extension of the present act in order to retain standby authority. We agree that protection against the consequences of short supply will continue to be necessary and Congress should maintain the provisions in the present act under which the Secretary of Agriculture has final authority in regard to controls on scarce agricultural commodities.

The declaration of policy in the present act permits export controls to be imposed for reasons of foreign policy, national security, and "short supply." Rather clearly, authority for controls will continue to be necessary for foreign policy and national security reasons.

The administration has proposed a fourth justification for export controls—namely, retaliation against a nation or group of nations unreasonably denying the United States access to a particular commodity. We would prefer that the authority for retaliation should be written into the Trade Reform Act. Numerous provisions are now set forth in the pending Trade Reform Act that would permit the United States to take retaliatory action. Only slight changes would be needed to include specifically the provisions proposed by the administration for the Export Administration Act. This is particularly true since the proposed retaliatory authority is tied in with world cooperation. It would be our recommendation that the bill extending the Export Administration Act would consist of a simple change in

dates. This would avoid including legislative amendments already proposed in other bills which could greatly burden our export activities.

The administration has proposed the option of the use of an export fee or auctioning of licenses as a means of controlling exports in the event of short supply. In imposing controls,

* * * the President may use whatever method of regulation he deems most appropriate, including, but not limited to, the imposition of an export fee or the auction of export licenses.

An immediate constitutional question arises over the imposition of an export fee or charge for export licenses as the Constitution specifically prohibits a tax on exports. Perhaps the fee can be justified for services or the proceeds marked for specific uses.

Assuming the fee is constitutional, the auction system would permit competition to determine the successful exporting firm. The proposed authority for export fees is very broad, and regulations would be needed to determine the procedure and method for imposition. Possibly fees would vary as between countries. This might result in fees being used to reward friends and punish less friendly countries. Would the licenses be freely negotiable? How would exports to specific countries be controlled? Many administrative problems can be envisaged which are not answered in the proposed legislation. In effect, the Government could be creating a market in export licenses. The imposition of the fee would seem to be an approach to the EEC grain system which the United States has criticized many times. Rather than venturing into unknown regulatory mechanics via the legislative route, we again urge a simple extension of the present act.

The National Grain and Feed Association is strongly committed to freer world trade and the removal of trade barriers. With some exceptions, we are supporting the Trade Reform Act as passed by the House.

Consequently, we urge that the least possible restraints be imposed on the exports of grains and oilseeds so that the American economy remains strong and a healthy agricultural economy is maintained.

Thank you, sir.

Mr. ASHLEY. Thank you, Mr. Sabin.

Mr. QUINLAN. Mr. Chairman, may I offer just one more sentence of comment.

Mr. ASHLEY. Yes.

Mr. QUINLAN. In our judgment, the Congress might as well have no legislation, at least with the present administration, as to provide the Secretary of Agriculture with authority, and not require him to exercise it. I think it must be a requirement, and it must be spelled out sufficiently to be effective.

Mr. ASHLEY. I take it you do not agree with that, Mr. Sabin?

Mr. SABIN. No, sir, I do not agree.

Mr. QUINLAN. A simple extension of authority, I think would be meaningless. The Secretary has made it plain that he is not about to do anything to control exports in any way.

Mr. SABIN. Mr. Chairman, there is considerable talk and agitation for reserve legislation, and, as you know, Senator Humphrey has had hearings on the Senate side. The proposal that has been presented by the bakers seems to be essentially a reserve commodity plan.

Mr. ASHLEY. In that regard, where did the 40-percent proposal come from?

Mr. KELLY. My understanding is, Congressman, the 40 percent was estimated to be the minimum supply necessary in the carryover for 1974, to be certain to meet the domestic requirements to fill the pipeline. In our paper, we briefly refer to it. The point is, you have to have wheat from farm to mill, from mill to bakery, and you have to have flour inventories and wheat inventories, and the 300 million bushels seems to be the best estimate of the supply that we could use for a carryover in any domestic year.

Mr. QUINLAN. I think that figure originally emanated from the Department itself, but quite some time ago, before they began saying anything down to 84 was enough.

Mr. KELLY. Mr. Chairman, I had two other points that I wanted to make, very briefly if I could.

Mr. ASHLEY. Please.

Mr. KELLY. On the question of——

Mr ASHLEY. Would you identify yourself for the record?

Mr. KELLY. My name is Richard Kelly. I am counsel to the Independent Bakers Association. The question has often come up about the attitude of foreign buyers, and considering the United States is an unreliable supplier of commodities, I think two basic points in meeting that argument are: one, you can only sell what you have, and all we are talking about is the last 300 million bushels that would be in the United States. After we sell those last 300 million bushels, we cannot sell any more, whether or not anybody considers us reliable.

So the question is, whether or not we are going to protect those critical last reserves in the bottom of the barrel, and I would like to quote for a second from something in our paper that Mr. Stroehmann did not read, which is a private GAO study to Congressman Robert Steele of Connecticut on the soybean embargo of 1973, in which case the GAO says:

> The soybean problem might have been ameliorated had agriculture acted more decisively at an earlier date to develop a strategy. The United States has no commodity management program to insure that it would have at all times adequate domestic supplies at reasonable prices. If agriculture adopted a more feasible export policy, we would be able to respond early to reports of unanticipated supply and demand conditions. With such a policy, it can be considered milder, less destructive control actions.

On the same issue, I would make one other point, which is that all other major wheat exporting countries in the world, except the United States, did have restrictions on exports of wheat in the 1973–74 crop year. So, what is so unreasonable as to the United States doing the exact same thing?

As to the other points made this morning, I think we feel that they are not germane to the end objective of assuring adequate domestic supply of agricultural products for the American consumer. The administration of the licensing technical administrative problems can be left to the Secretary of Agriculture and the Secretary of Commerce.

Thank you very much.

Mr. ASHLEY. Well, we do have a problem. Inasmuch as we have a point of inquiry, we have delved into a problem with respect to the proposal that we go to a fee or an auction system, and it is one to

which the subcommittee obviously is going to be directing itself. So comments on that subject, I think, are relevant, very much so.

Mr. QUINLAN. We may have some later, Mr. Chairman. We are now conferring with other groups in an attempt to reach a consensus of suggestions as to this.

Mr. ASHLEY. Well, that would be helpful, Mr. Quinlan, if those could be made available to us in the next week, really. We are going to try to conclude our testimony, our hearings, by the end of next week, after which we will be embarked upon a markup. So, if it is possible to give us further information, why, we would appreciate it.

Mr. QUINLAN. Thank you, sir. At this moment, I would say, except for dotting some of the "i's," H.R. 10844 would be good legislation. But we will examine whether there are any other suggestions that we might offer to perfect that.

Mr. ASHLEY. Thank you. Because we do have a second panel, gentlemen, I will excuse you at this time, with thanks for your contribution and your serious and thoughtful suggestions to the subcommittee.

The subcommittee will now take testimony from a panel of witnesses focusing on the short supply of fertilizers and proposals to deal with this problem through the imposition of export controls.

First we will hear from Paul S. Weller, vice president for public affairs of the National Council of Farmer Cooperatives, who is accompanied by Robert N. Hampton, the council's vice president for marketing and international trade.

STATEMENT OF PAUL S. WELLER, VICE PRESIDENT FOR PUBLIC AFFAIRS OF THE NATIONAL COUNCIL OF FARMER COOPERATIVES; ACCOMPANIED BY ROBERT N. HAMPTON, VICE PRESIDENT FOR MARKETING AND INTERNATIONAL TRADE

Mr. ASHLEY. Gentlemen, if you will proceed, bearing in mind the time constraints that I indicated to the other witnesses.

Mr. WELLER. Thank you, Mr. Chairman.

The National Council of Farmer Cooperatives appreciates this opportunity to appear before this distinguished subcommittee, and to discuss the subject of export regulations on fertilizer.

My name is Paul S. Weller, and I am vice president for public affairs of the National Council of Farmer Cooperatives. I am accompanied today by Robert N. Hampton, vice president for marketing and international trade.

The National Council is a nationwide organization of 107 farmer-owned and controlled regional cooperative businesses. There are also 32 State councils of farmer cooperatives affiliated with our organization.

Our cooperative members serve approximately 1.5 million farmers throughout the United States. One of these farmer-owned cooperatives is the largest single producer and wholesale marketer of fertilizer in this Nation. Combined, our cooperatives supply approximately 32 percent of the total U.S. domestic market of fertilizer.

The National Council is very concerned about the critical shortage of nitrogen and phosphate supplies in the United States. Indeed, our cooperatives believe that the shortfall this year will exceed the esti-

mates published by the U.S. Department of Agriculture. There is—and will be—a shortage of fertilizer for U.S. farmers this year. But the solution to this problem does not lie in export controls on U.S. fertilizer production.

We feel that such a move could be damaging in its net effect on U.S. agriculture, harmful to our credibility as a leader in world political affairs, and would be counterproductive to this Nation's delicate balance-of-payments situation. The National Council has long favored trade barrier reductions rather than restrictive measures. We know firsthand that American agriculture must export in order to prosper and to serve our best national interests.

This is brought home quite vividly when one studies the latest export statistics from USDA's Foreign Agricultural Service. The United States will export an estimated $20 billion in agricultural products in the 1974 fiscal year ending June 30.

This means that we are selling and shipping abroad nearly $2 billion worth of agricultural products each month. USDA estimates that one crop acre out of every four produced in this Nation will have its products shipped abroad. The Foreign Agricultural Service tells us that about half of this figure—near $10 billion—will be a net trade surplus for agriculture.

Mr. Chairman, that is $10 billion to apply against the massive trade deficits that this Nation faces in manufactured goods and raw products, such as crude oil.

Yet, in the midst of this recordbreaking agricultural trade—in a year when this Nation may have to import an estimated $20 billion of energy to meet its domestic needs—some persons would have us impose an embargo on a portion of our agricultural exports. Such unwarranted action would invite severe retaliation from those nations from whom we must import fertilizer ingredients, would do serious damage to the U.S. position as a reliable supplier of agricultural products, and would disrupt our efforts as encouraged by the Trade Reform Act of 1973 as passed by the House to strengthen the code of international fair trading rules, including assurance of equitable access to both markets and supplies.

The National Council of Farmer Cooperatives and its farmer cooperative members are strongly opposed to any such abrupt action by this Congress.

We cite a recent statement made to us personally by the Honorable Susumu Matsuoka, First Secretary for Agriculture of the Embassy of Japan. Mr. Matsuoka told us that Japan was somewhat glad to have experienced last summer's ill-conceived U.S. export embargo on soybeans. Other than turning his oriental black hair to gray, as he humorously noted to us, Japan was able to measure the consequences of depending so much upon the United States as a major source of its soybeans. He made it clear that they learned a hard lesson in two ways: One, that they could no longer blindly depend on the United States for a continuous supply of this critical food commodity; and two, that they must turn to alternate sources for their agricultural products. This unfortunately they did—and he pointed out that many millions of Japan-held dollars are going into the development of the Brazilian soybean industry—in direct competition with U.S. farmers.

We ask this subcommittee today: How many more of our key agricultural customers must we alienate before we learn the costly export control lesson?

Japan will buy an estimated $3 billion in U.S. agricultural products from us this year. Canada will buy over $1 billion, the European Economic Community an estimated $4.5 billion, and Africa and the People's Republic of China a half billion dollars each. We cannot turn our backs on these agricultural customers, and we cannot again be guilty of breach of contract—as was true in the 1973 soybean embargo.

We must, through major world trade negotiations develop standards of preliminary steps and consultations which any trading nation must observe before moving toward either closing its markets or restricting supplies. Furthermore, we cannot be guilty of jeopardizing the levels of commodity prices to our own farmers, who are so dependent upon expanding their world markets.

As most of you know, U.S. agriculture is currently experiencing a serious shortage of nitrogenous fertilizers. Much of the problem stems from insufficient production capacity that has been an outgrowth of this Nation's shortage of natural gas.

While the debate goes on as to whether wellhead prices of interstate natural gas will be decontrolled to stimulate additional production, America's nitrogen fertilizer production is moving north to Canada. Our farmer cooperatives are currently making commitments that will eventually see construction of the world's largest nitrogen fertilizer production center near Calgary, Alberta. An estimated 900 persons will work there some day, jointly operating a $1 billion production complex. Much of this investment will be by U.S. farmers through their cooperative organizations.

At the same time that we are finalizing trade contracts with Canada on nitrogenous fertilizers, we are dependent upon Canada for nearly 7 million tons of our potash for fertilizer manufacturing. She, in turn, is dependent upon us for more than 3 million tons of our phosphate rock from Florida.

On top of this critically needed trade, many of our nothern tier States depend upon Canada for large quantities of finished fertilizer products. Michigan, New York, the Dakotas, and much of the Pacific Northwest fall within this category.

What is to happen to this critical fertilizer trade if this Nation so blatantly imposes an embargo of fertilizer exports?

What is to happen to the imports of fertilizer nitrogen and potash that our farmers so desperately need from Canada?

Do we not think that they will be prone to retaliate if we embargo the phosphate that they need?

What, then, is the answer, if an embargo on fertilizer exports is not?

We believe that immediate expansion of domestic fertilizer production is a major solution—coupled with a forceful program of conservation education by USDA and the Cooperative Extension Service.

The farmer cooperatives are doing their part in this regard. They currently have under development plans that will require an additional capital investment in fertilizer production of one-half to three-quar-

ters of a billion dollars. They have recently announced plans to purchase a large barge company which will facilitate movement of fertilizer down the inland waterways. In addition, our cooperatives have been very active in pressing for increased—and improved—rail transportation to move phosphate rock from Florida, and finished product to major farm markets. Just recently, two of our farmer cooperatives jointly purchased 100 railcars—to be used to move fertilizer and products in off-season and grain during crop season.

Within a few weeks of my testimony here this morning, one of our largest farmer cooperatives will bring on stream the latest nitrogen plant to be built in this country. It was begun more than 3 years ago, to use natural gas owned by this same farmer cooperative. To our knowledge, no more domestic fertilizer nitrogen plants have been planned or are under construction.

The National Council strongly urges this subcommittee to carefully examine the current commitments by private industry to expand the domestic production and supply of fertilizer. Of special concern should be the expansion plans of investor-owned companies, that account for 65 to 70 percent of this Nation's current fertilizer supply.

If the subcommittee is not satisfied with the progress being made in this area, the National Council strongly urges a thorough re-examination of Government policy, as it relates to domestic fertilizer production and prices. In this connection, we ask that you make special note of the interstate price regulation of natural gas.

In closing, let me pledge on behalf of the Nation's farmer cooperatives that we shall do all in our power to increase this Nation's fertilizer production and to improve our distribution network. In return, Mr. Chairman, we respectfully ask that the Government place fertilizer production on a high national priority, so that all agencies of the Federal Government coordinate their efforts to assist us in achieving maximum production.

Thank you.

Mr. Ashley. Thank you, Mr. Weller, for a very interesting statement.

Our next witness, then, will be my friend, Edwin M. Wheeler, president of the Fertilizer Institute of Washington, D.C. We are always happy to see Mr. Wheeler, and if you will, proceed as you wish.

STATEMENT OF EDWIN M. WHEELER, PRESIDENT OF THE FERTILIZER INSTITUTE

Mr. Wheeler. Thank you, Mr. Chairman.

By way of explanation, the Fertilizer Institute is the trade association representing 90 percent of all U.S. fertilizer production, including the co-ops who are among the leaders of that group.

Mr. Chairman, I respectfully request that my statement, which was submitted in advance, be included as part of the record. I do not intend to read it, one, and I do not intend to violate the chairman's admonition of 10 minutes.

Mr. Ashley. That is appreciated, and your statement will most certainly be included in the record.

Mr. Wheeler. Mr. Chairman, we have prepared three charts to aid in this discussion this morning to give you an idea of the U.S. exports. This data is based on U.S. Department of Commerce, and it begins

in the traditional "fertilizer year," July 1, 1973, and includes the latest for which data is available, January 30, 1974.

During that period the United States shipped out of this country as follows: 2.1 million tons to Canada; 1.5 million tons to Japan; 1.4 million tons to Brazil; 890,000 tons to Mexico; 783,000 tons to Belgium and Luxembourg; 644,000 to West Germany; 500,000 tons to Italy; 446,000 tons to Korea; 427,000 tons to France; and 414,000 tons to India.

I should like to respectfully point out to the committee, with some of these speeches in the Congress notwithstanding, that none of this was AID material, and all of it was for hard dollars. These are the customers that we trade with, the top 10.

Now, obviously, there are a number of smaller nations we are exporting to who do represent AID. But by and large, these are all hard dollar shipments. Incidentally, Mr. Chairman, almost in every case on a long-term contract.

Now, it is getting very tough to convince the American public that the United States does not stand alone, but in fertilizer we find ourselves in a net import position if phosphate rock is excluded. Phosphate rock is ordinarily not considered to be a usable form of fertilizer in that state. It has to be converted by acidulation and the addition of ammonia to become triple phosphate and diammonium phosphate.

We imported from Canada 4.1 million tons of material. A great chunk of that was potash, for the United States is now dependent for 65 percent of all of its potash being imported from either Canada or Israel, but mostly Canada by about 95 percent.

In addition, the Netherlands ships us a great tonnage of nitrogen and urea, primarily coming through the Great Lakes system. Incidentally, the bulk of this tonnage is going to the biggest independent in the United States, the Andersons, located at Maumee. Norway exports into the United States. This is primarily serving the California-Arizona market. Trinidad represents 149,000 tons of material during this period of time. This is primarily due to W. R. Grace & Co.'s big plant located in Trinidad. The Netherlands' Antilles, which is off the coast of Brazil, ships us a fairly small but steady quantity of material.

But the fact remains that during the first 7 months of the year the United States imported 3.9 million tons of material and exported 3.6 million tons of material. Now, I recognize that the chairman has not escaped the wrath of a number of farmers over the fact that "we are exporting all of our fertilizer."

For years in the industry, the rule of thumb has been 10 to 12 percent of U.S. fertilizers going into export. The chairman would note that that has held steady right on until the beginning of 1973, when the trend began to go up rather sharply. As the chairman can see, it was rapidly working its way up to 15, to 16 percent. The reason for it is the second reason we are opposed to this embargo.

U.S. prices were frozen at a very, very low level at a period when the companies had consistently lost money during this 3-year period. The loss in those 3 years was better than $250 million in actual cash loss. Under our rules of phases 1, 2, 3, and 4, the export price, as the Chair knows, was not frozen.

Now, it was in this period of time that the world really became aware of the fact that many nations were on the verge of starving. Ergo, the

foreign governments began to buy American fertilizer in ever-increasing volumes—and I should say, with all candor, Mr. Chairman, led by Brazil, who has tremendous foreign reserves.

As we reached this point, the Government then finally came along and on October 25 we were decontrolled. We were the first industry to be decontrolled.

These projects, if the Chair pleases, are based upon a new system instituted by the Government at the time of decontrol that all companies must report ongoing sales in exports, and the report is filed with Congress. While we have some serious doubt about their efficacy, indicating a very sharp trend dropping in export and swinging back now to just about the 10 to 12 percent. So that we feel that the peak in exports has passed.

Now, I would not want to mislead the chairman. We have a situation that the industry is back again under a quasi-freeze. The U.S. wholesale price, as of January 10—the producers and only the producers agreed to hold those prices until June 30, which would be the end of our year.

Mr. Ashley. Was that part of the decontrol agreement?

Mr. Wheeler. Yes, sir, and publicly announced.

Mr. Chairman, so that the Chair will know when he goes to Ohio what awaits him, let me give you a couple of examples, and one will suffice. The highest price that I am aware of under the quasi-freeze agreement is $120 on ammonia f.o.b. production site. The world price, the export price this morning is about $350.

The urea situation is the same. For example, you have urea being moved into the State of Ohio right now that was bought 6 or 8 months ago in Holland at the then $250 f.o.b. price, which, of course, you have got to add $35 to $40 per ton for oceangoing transportation and so on. But we are faced with a situation of high world demand and a great difference in price.

So that I do not want you to call me up on July 1 and say, "Hey, you forgot to tell me about this. Why is American price beginning to move again?" And it will, in my best judgment.

I do not think it will close to the world price. Now, the point of all of this is, is that we are not self-sustaining in fertilizer and the imports from Canada will continue to rise. The imports overseas will continue to rise, because we only have the two plants under construction for nitrogen. Farmland has one, and it is soon to start. Agrico has the other, and it will not start for another 18 months. So we will have to import more and more nitrogen, and we are going to pay through the nose for it.

The second thing I want to address rather quickly now, is that whether we like to admit it or not, the United States is going to have to provide some material in exports for humanitarian reasons and humanitarian reasons alone. For example, Mr. Chairman, Morocco, which is the No. 2 nation behind us in the export of phosphate rock, has raised the price of rock from $15 to $45 a ton. By July 1, 1974, it will be $50 a ton; by July 1, 1975, it will be $75 a ton. Every nation in the world, Mr. Chairman, has drawn down their food reserves to zero. Every nation in the world is in dire need of fertilizer, and they need it now.

Ambassador Moynihan testified before the House Foreign Relations Committee that in his judgment India, for examule, would have a shortfall of 500,000 tons. But the Ambassador was being too modest. The shortfall will be at least a million tons in India.

So it goes around all the merging nations. So that the United States, if it placed an embargo on fertilizer, would be saying to millions, literally billions of people, we do not care. We are going to let you starve to death.

Now, of course some of the sponsors of this bill say that what we ought to do is to export the grain and keep the fertilizer at home. That is a specious argument. These countries will never get on their feet unless their own farmers get on their feet. If we continue to ladle out Public Law 480 grain, they will never have a viable agriculture.

Mr. ASHLEY. There is not enough grain anyway, is there?

Mr. WHEELER. No, sir.

The second thing is that if you go back to economics 101 in college. the law of diminishing returns favors a ton of material in India over an additional ton of material in the United States, because our farmers now have approached the maximum yield curve on nitrogen. So that when they put on a ton in the United States, the best they would get would be, say, 5 tons of feed grain. In India and the wornout countries that have farmed 2,000 years, a ton produces 10 tons of grain. So that whether you look at it in shipping costs, because we are not trying to drive all of the Indians into New Delhi—they have got to stay on the farm because of obvious problems—the humanitarain approach for the country is obviously to permit us some exports.

Last, Mr. Chairman, we have a number of new phosphate plants being built in the United States. We are expanding to the tune of 40 percent, or just a little bit under $1 billion. Several of these plants are being financed in part by international interests.

From those plants, certain tonnage is pledged to them, with the balance of the tonnage being pledged to the American farmer. If you put an embargo on, there goes the money and there goes the plant, and we think this is a foolish thing to do. We do not understand, Mr. Chairman, frankly why, with a shortage of every agricultural input from bailing wire to tractors, we are suddenly being singled out as the bad boy, particularly, when our industry was the money loser 3 to 4 years back to back, laid off thousands of people in an attempt to prevent bankruptcy, and now suddenly fertilizer seems to be the political aphrodisiac.

Now, whether you measure it from the basis of these nations turning us off—and believe me, they are retaliating, because there is tremendous pressure in Canada right now—whether you measure it from humanitarianism, or whether you say to the investment community in our industry, we are not going to permit you to export because that is what these bills provide for, this would kill us with the investment community.

The investment community on any industry will not invest where that industry is being singled out and prevented from participating in obviously, admittedly, a lucrative and profitable market.

Thank you, Mr. Chairman.

[Mr. Wheeler's prepared statement on behalf of the Fertilizer Institute, follows:]

PREPARED STATEMENT OF EDWIN M. WHEELER, PRESIDENT, THE FERTILIZER INSTITUTE

I

The many bills pending to restrict fertilizer exports are introduced or sponsored on the good old American premise or proposition of solving in an instant what is admittedly a difficult current and continuing problem. Mature reflection or knowledge in depth would reveal that the proposed legislation, if enacted into law, would create a far worse situation than the drafters and seconders would seek to solve.

While some have not net accepted the facts of life, we will continue to be plagued by ill-considered legislation such as the fertilizer embargo bills now before the Congress. Fortunately for the safety of the Republic and its people, there are those in the Congress who can see beyond the next plebiscite. I am confident that when the issues here raised are examined on their merits then the proposals shall be given a decent burial.

Our high standard of living has been based on an inexorable draw down on our national mineral reserves. Except for coal and one or two other major natural (one could say, "God given") resources, we are rapidly consuming these domestically sited reserves. As a people no other populace is as creative and productive as our fellow Americans. However, minerals once removed from their natural locations can not be replenished. Everyone is aware of this simplistic fact, yet be obviously don't accept it or we wouldn't even have these hearings. For example, every living plant must have nitrogen, phosphate and potash or it will die. By happenstance or otherwise, our farming areas all had these three minerals in their soils at the "beginning." Continued and ever concentrated farming efforts have depleted these three minerals. Plants are like miniature mining operations in that they continuously deplete the resources. Modern man fools the growing plant by replenishing these vital nutrients from different geographical locations.

Peanuts grown in Georgia are fertilized because that state has been farmed for nearly 200 years. Nitrogen to replenish the mined out soil comes from the natural gas produced in Louisiana and Texas, the phosphate comes from the Bone Valley area of Florida and the potash from either Canada or New Mexico. Unemotionally, the growing plant couldn't care less where the mineral element is produced for the unchanging laws of nature require these three basic nutrients or the plant simply does not give up the bountiful harvest we need and expect of it.

Every member of this Committee should therefore examine his own constituency and ask those who produce crops (i.e., FOOD) where their nutrient source is located when they consider the embargo measures now before you. While we have used the peanut, let us also look at the Ohio corn farmer or, for that matter, any other farmer. The story is identical. His nitrogen is now based on Gulf Coast gas; however, more and more new production is being announced in Canada, South America and soon, we suspect, the Middle East. Congress and the current Administration simply have not come to grips with the critical issue of fertilizer nitrogen production sorely needed by our farmers—and consumers—all of us. By even a conservative estimate we need an additional 8,000,000 tons of nitrogen in just 6 more years, yet our industry can't get additional U.S. gas from interstate suppliers nor has any proposal come out of the Congress to meet this need. In several years, I predict, all manner of investigation by the Congress on this subject will be going on. Yet, today's interest and hearing is a one shot deal to give instant solution. Truly the "embargo" issue has nothing to do with a bona fide solution. The shortage will grow annually worse. How then, will the embargo proposals help? It is self answering—"Not at all!"

Earlier I alluded to depletion of U.S. mineral reserves and more particularly to our gas supply. Currently we are importing nearly as much nitrogen as we are exporting (971,000 tons against 1,259,000 tons in 1973). Only in phosphates will we continue to be self-sustaining. We have large reserves of phosphate rock and our industry has already announced hundreds of millions of dollars in capital expansion programs. It is well known in our industry that some of the expansion is based on foreign (non North American) capital. These invest-

ments are tied to receiving a part of this new U.S. production. An embargo, at the minimum, would place this off-shore capital in jeopardy. Losing the foreign investment would likely mean the cessation of construction and resultant loss of some of this additional fertilizer for American farmers. We need more production, not less, and this is what an embargo would accomplish—less.

Sixty-five (65) percent—two-thirds of all potash used in the U.S. comes from imports. We are exhausting the U.S. reserves located principally in the Carlsbad, New Mexico area. We do have potash also in Utah and Calfornia, but for many years New Mexico was regarded as the Mother Lode. Not so now as we are exhausting this source. Canada on the other hand has tremendous reserves, hence, our rapidly growing dependence.

Canada does not have any major phosphate rock supply and is totally dependent on the United States for its now 2,500,000 tons of imports. If we embargo phosphate rock what would be the obvious tool of retaliation for Canada? Potash. The Commitee should also consider that Canada ships to the U.S. large quantities of ammonia, ammonium sulfate, ammonium nitrate, urea, triple super phosphates and diammonium phosphate. Users extend from the potato farmers of Maine, across New York (including Pennsylvania), Michigan, Wisconsin, Minnesota, North and South Dakota, Montana, Idaho, to the wheat farmers of Washington and Oregon.

We also ship substantial quantities of phosphate rock to Holland where we obtain ammonia and urea in major tonnage. Put on all fours, beginning July 1, 1973, through January 1974 we IMPORTED 3.9 million tons and (excluding phosphate rock which is not classified as a finished or final material) EXPORTED 3.7 million tons. Accordingly, the U.S. is a net importer of fertilizer. One can be sure that putting an embargo into effect would invite the severest retaliation. We have set forth tit-for-tat examples, but that is simplistic. Brazil is our third largest customer next to Japan, following Canada. Brazil, like all 10 of our leading customers pays for its purchases in hard dollars. Demagoguery aside, the major importers of U.S. fertilizer pay in cash and no foreign assistance plans are involved. Turning off Brazil would invite mutual treatment in coffee, iron ore, sugar, and foot ware. We will not belabor the point, but would be pleased to give the Committee the current imports of major products from the nations to which we sell our fertilizer.

All of this takes us back to the first point we have been trying to make, namely, that no longer is our country able to feed itself based exclusively on our natural resources. Our food supply depends more and more upon other nations insofar as fertilizer imports are concerned. Before we adopt as policy that when we get into a snug supply of fertilizer we will shut others off, *we must be prepared to accept an equal treatment.* If this is to be the posture, knowing full well that retaliation will rain down upon us, then our food supply picture is bleak indeed. We embargoed soybeans with no recognition of historical basis as to which nations had been previous customers and who were "Johnny-Come-Latelys." Interestingly enough, the nations who were substantial purchasers couldn't reciprocate in kind. We cut off Japan but why would they not continue to ship tape recorders? Fertilizer, on the other hand, produces food. Cut off fertilizer to Brazil—down goes coffee production and who is to blame? Cut off Canadian shipments of phosphate rock and off goes all of Canadian farm production. Off goes their manufactured phosphates to the U.S., their potash, etc. One would believe that we should have learned a lesson on soybeans but obviously certain members of the Congress were deaf. Passage of these bills would bring full retribution.

One cannot escape the daily ringing condemnation of the Arabs for turning off the oil. While few agree they had the "right" to so act, we would emulate their reprehensible conduct by doing the same thing with fertilizer. There is a very substantial difference, however, in oil versus fertilizer. In many nations the oil embargo caused inconvenience or economic dislocation. *A fertilizer embargo would cause starvation.* We believe this difference alone is enough to defeat these proposals.

II

In the first part of this testimony we have alluded to the commercial aspect of an embargo. We now turn to what could cynically be called the humanitarian side of the picture. Many members of the Congress erroneously argue that U.S. farmers ought to get ALL the fertilizer because (1) we are the most efficient

food producers in the world, (2) that we can feed the emerging nations from our soon to be created surpluses, and (3) that our farmers get greater response from fertilizer than others do. Part of the foregoing is true and a great part is false. Let us examine these positions in the light of fact not rhetoric.

Only 5% of the U.S. populace feeds the other 95%, so the efficiency of the American farmer can hardly be doubted. He does it with not only hard work, but also with tremendous quantities of energy mostly in the form of liquid fuels. Our use of machinery is world renowned. Our use of oil is staggering. Per acre of production, however, is matched in a number of countries. South American and South African corn and soybean farmers are in many instances on par with us. Japanese rice producers meet Texas, Arkansas and Louisiana head on. Europe wheat production is still another example. Not only is it overly simplistic then to say we are *the* efficient food producers, but it is in certain areas and crops false. Measured on a nationwide basis for sheer magnitude of total production we are the leaders but one should compare apples with apples.

For the purpose of seeing the REAL implications of these proposals, let us assume first they were enacted and, second, in a year or two we would have large grain reserves again. (1). Will the Congress be willing to let the foreign nations come in on an open market basis and drive the domestic grain prices higher and higher? Would the Congress ruch to the assistance of emerging nations by heavily funding P.L. 480? Not only would tremendous sums be required on P.L. 480 transactions because of demand, but the soaring price of the grain itself would cost the American tax payer additional billions.

Still, if this is not enough, let us suppose we selected as national policy to ship grain and ban fertilizer. Many nations of the world have 60–75% of their populace on the farm. If they can't secure the inputs they are going to be driven off the land totally unequipped to cope with the staggering problems of those nation's cities.

By the United States selecting a policy of grain, "yes," fertilizer, "no," we would nearly doom nations to a begger status forever. They will never become self-sufficient. Internationally, we are being accused of that selfish motive right now. If one believes in self-help then a continuing grain "handout" is self defeating. I cannot believe that our nation has reached a stage in its evolution where it will neither help feed nor directly supply sustenance to literally millions now on the abyss of starvation. If this is to be future U.S. policy then the ideals of our nation are truly dead. Accordingly, would it not be better to continue shipping admittedly a limited amount of fertilizer in order that these nations can extricate themselves? Saying no to this inquiry means either massive grain exports (and very high domestic prices) or the alternative of letting them starve.

Differences in benefits from high and low levels of fertilizer application also should be considered because of the law of diminishing returns. At low levels of application, the yield increase from a given amount of fertilizer is more than when applied at high levels of application. For this reason, a ton of fertilizer in the developing nations applied at the "low end" of the response curve will usually produce a greater yield increase than if a ton is applied at the "high end" of the response curve in the developing countries. This factor, plus the unbelievably high ocean freight rates, makes fertilizer the truly economic export, particularly when viewed from the unemotional standpoint.

III

No hearings have been held on the fertilizer situation that the question of price has not risen. It is particularly germane here because of the full Committee's broad jurisdiction and because of the recent activities of the members in this area.

Triggered by tremendous overproduction during the mid 1960's, prices plummeted and profits turned into large losses. In 1968, 1969 and 1970 the industry losses were in excess of 250 million dollars. While farm machinery rose 141% between 1950 and 1973, farm land went up 275% and farm labor rose 213%. Fertilizer up to and including December 1973 went up only 19% in 23 years. Had anhydrous ammonia followed this general trend farmers would be paying $450 a ton today. Phase I, II and III profits were all based on the years of our losses. It took months of bureaucratic wrangling to even get a loss and low profit rule.

We were decontrolled on October 25, 1973, therefore, for two reasons, first, to stem the soaring export tonnage (export prices were not subject to control and were much much higher than the U.S. maximums) and second, to encourage plant expansion. Simultaneously, the industry agreed not to solicit new export orders until June 30, 1974. Both goals have been reached except for natural gas feedstock being the limiting factor.

Prices in the U.S. rose rapidly moving toward the then world price. Two totally unforeseen events occurred which ultimately resulted in a quasi freeze. The oil embargo had dire consequences on most of the world's nitrogen plants as their feedstock is petroleum, contrasted to the U.S. plants based on gas. Many plants shut down and in every country prices soared off the chart. Mid-East action was not lost on Morocco and Tunisia which are major exporters of phosphate rock. In one jump they increased their prices 183%. All signs now point to another increase by these two nations on July 1, 1974, and still another in 1975.

On January 10, 1974, Dr. Dunlop met with industry leaders in alarm at the rapidity with which U.S. prices were rising. At this meeting and by subsequent telegraphic commitments the producers went under a quasi freeze until the end of the fertilizer season, June 30, 1974. This commitment has been enforced by frequent IRS field activity.

Fertilizer is a commodity. Urea, for example, produced in Japan or Holland or Venezuela is *identical* to that produced in U.S. plants. Accordingly, its supply and price respond in the world market exactly as do the commodities such as wheat, cotton, corn, peanuts, etc. World price today (as a rule of thumb) is over $100 per ton higher than is permitted under the January 10, 1974 quasi freeze. Even though the Economic Control Act is soon to expire, it is my considered judgment the responsible members of the industry will abide by their pledge on price and export to June 30.

Admittedly, between runaway costs and high world demand (or shortage) prices in the U.S. will undoubtedly rise after July 1, 1974. For example, with the industry using 5,000,000 barrels of oil just in manufacturing and its cost now up over 150%, some real changes are at hand.

IV

When all is said and done, all farm inputs are in short supply. Bailing wire, farm machinery, pesticides—the list is endless. *Why is fertilizer the first one of the components being singled out?* More importantly, why are all farm inputs in such short supply?

Our world is basically out of any new resources for its food supply. Grain reserves, except for war time, are at an all time low. Had certain nations not deferred contracted shipments, we in this country would have drawn our wheat reserves down to less than one bushel per person. The real spectre of mass starvation stalks many a nations populace. Every government in the world is closely guarding its inventories and encouraging maximum indigenous production. Our whole U.S. policy is now one of all out production to not only stem the rise of food price but to replenish now non-existent reserves. Such a broad Herculean effort is bound to strain the input sector, be it tractors or ammonia. Given priorities and economic encouragement, our industry will bridge the gap.

Given the threat of embargoes JUST ON OUR PRODUCT dries up our sources of capital, our real ongoing need to expand, torpedoes years of efforts to expand our foreign market and casts a pall over all U.S. industry reputation as being a dependable supplier. Over and above this is a basic question of morality—humanitarianism.

No one in this room really believes Arab oil is a good bet over the long pull. Why? The embargo—they are undependable in a pinch. By approving this legislation the Congress would place our industry in the same tent.

Mr. ASHLEY. This is a very straightforward statement and we appreciate that.

Our final witness this morning is Richard L. Gilliland, executive director of National Fertilizer Solutions Association in Peoria, Ill.

Mr. Gilliland?

STATEMENT OF RICHARD L. GILLILAND, EXECUTIVE DIRECTOR OF THE NATIONAL FERTILIZER SOLUTIONS ASSOCIATION

Mr. GILLILAND. Mr. Chairman, our association sits in Peoria, which is the heart of the corn and soybean production area of this Nation, and the farm customers of our retail fertilizer dealers are currently faced with acute shortages of nitrogen, phosphate, and potash.

The full impact of the shortages, which in most cases will reflect 20 to 35 percent, is now being felt. By using an old axiom of 1 pound of nitrogen to produce 1 bushel of corn, and if the price of corn is $2 per bushel, and in Illinois we are only 20-percent short of nitrogen at planting and side dressing time, this means a loss of $400 million for the agricultural economy in that State alone.

At the present time, we are importing approximately the same amount of fertilizer as we export. Placing an embargo on export shipments of fertilizer products would, no doubt, increase these losses.

It would be a great mistake to tamper with this finely balanced and interwoven import-export situation.

A March 21, 1974, report of the Economic Research Service of the USDA predicted the following: In 1974, exported nitrogen would rise to 14 percent of U.S. production, exported phosphate would reach 25 percent of U.S. production, and imported potash would be 133 of U.S. potash needs. Since the CLC removed price controls in October 1973, the industry has voluntarily reduced exports at the request of the administration.

At the March 8 hearings in Omaha, Nebr., Senator George McGovern reported that figures actually showed nitrogen exports had dramatically dropped to 4.3 percent and phosphate exports have decreased to 20 percent of production.

What has happened to potash?

Let this be a warning to proponents of an export embargo. Since the industry's voluntary reduction of exported nitrogen and phosphate, imports of potash have dropped 23 percent below USDA predictions to 106 percent of need.

I feel there are two areas which we could discuss which would be of help to at least partially solve some of the problems facing the independent retail fertilizer dealer and his farmer customers. First, the retail fertilizer dealer is caught between Government statistical reporting and what we feel is actually the truth.

The USDA continually reports there is somewhere between a 5- and 10-percent shortage. If this is the case, why is every State fertilizer association along with State Department of Agriculture Commissioners reporting upward of 30-percent shortages—especially of nitrogen products?

For example, in a March 7, 1974, meeting of the Midwest Departments of Agriculture held prior to the March 8, 1974, McGovern subcommittee held in Omaha, Neb., the following State figures were stated:

Glenn Kruescher, director of agriculture, State of Nebraska, said Nebraska farmers will have only 49 percent of the fertilizer supplies they need for spring plantings. His survey results complied from re-

sponses of more than 400 fertilizer dealers were based primarily on dealer responses on how much fertilizer they had in stock or for which they had firm commitments for delivery.

Robert J. Williams, director of agriculture, State of Illinois, said surveys taken in his State indicate a 25- to 30-percent shortage of nitrogen fertilizer.

Roland Dennison, department of agriculture, State of Minnesota, forecasts a 30-percent shortage of nitrogen, 25-percent shortage of phosphorus, and a 15-percent shortage of potash.

William Schroeder, department of agriculture, State of South Dakota, said current surveys indicate a 35- to 40-percent fertilizer shortage in his State.

In order to come up with a halfway logical planning program, the fertilizer dealer and farmers must have some idea as to what to expect in the way of raw materials.

This lack of information on the part of the fertilizer retailer as to his supply—especially of nitrogen—will seriously hamper the farmer as to his planting intentions. It will most likely affect the corn acreage because the average farmer, without nitrogen, will plant soybeans. We are faced with a serious information gap.

We cannot blame the basic producers of nitrogen, phosphorus, or potash for our problems. The industry will probably deliver some 8 percent more tons of fertilizer to the American farmer in 1974 than 1973.

If the USDA and other Government agencies will admit to the industry there is this serious shortage, it would give our fertilizer dealer some much needed moral support with which he could better face his irate farmer customer.

If you are from an agricultural State, then you must know that when the farmer makes money, so does everyone else, and the reverse is also applicable.

Our second problem is the ability of certain segments of our industry to get raw materials, especially nitrogen products, and to sell them in the marketplace at fantastic prices. I would hope that this subcommittee would serve notice to all those who would gouge the farmer or retailer with black-market products or with tactics beyond the legitimate bounds of the marketplace that their efforts will not be tolerated.

If we can, through public awareness, cause unethical salesmen of agricultural commodities to mend their ways and rejoin the legitimate market, we shall have provided a great service.

Why are we faced with this severe problem? Well, primarily blame must be placed on the Government. With natural gas prices and fertilizer prices themselves held at grossly low artificial levels, production of fertilizers was discouraged and export of our production was very appealing. Restrictions and negative incentives for the construction of new facilities have also discouraged growth.

Many other factors have contributed to the shortage. The Government has called for all-out production, placing some 35 million new acres of farmland into service. Agricultural prices are, for the first time in two decades, high enough to encourage many farmers to want to increase production.

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Environmental standards and regulations forcing many older plants to discontinue or curtail operations must be carefully scrutinized. While we must not drop our goals of a clean and productive environment, we may be forced to weigh our priorities.

We must encourage the Federal Energy Office to increase the priority of use of natural gas by fertilizer producing operations and allocations of gas for new and existing plants must be made.

The Congress can best help the fertilizer industry, and for that matter all of agriculture, by not imposing any embargo at this crucial moment in our industry's future.

The fertilizer industry is a worldwide market with worldwide raw materials. Our association sees no need for artificial barriers which would limit the domestic fertilizer industry from competing for these worldwide raw materials.

Thank you.

[The prepared statement of Mr. Gilliland on behalf of the National Fertilizer Solutions Association, follows:]

PREPARED STATEMENT OF RICHARD L. GILLILAND, EXECUTIVE DIRECTOR, NATIONAL FERTILIZER SOLUTIONS ASSOCIATION

Mr. Chairman, and members of the Committee, our Association sits in Peoria, Illinois, in the heart of the corn and soybean production area of this nation. The farm customers of our retail fertilizer dealers are faced with acute shortages of nitrogen, phosphate and potash.

The full impact of the shortages, which in most cases will reflect 20 to 35 per cent, is now being felt. By using an old axiom of one pound nitrogen to produce one bushel of corn, and if the price of corn is $2 per bushel and in Illinois we are only 20 per cent short of nitrogen at planting and side dressing time, this means a loss of 400,000,000 dollars for the agricultural economy in that state alone.

At the present time, we are importing approximately the same amount of fertilizer as we export. Placing an embargo on export shipments of fertilizer products would, no doubt, increase these losses.

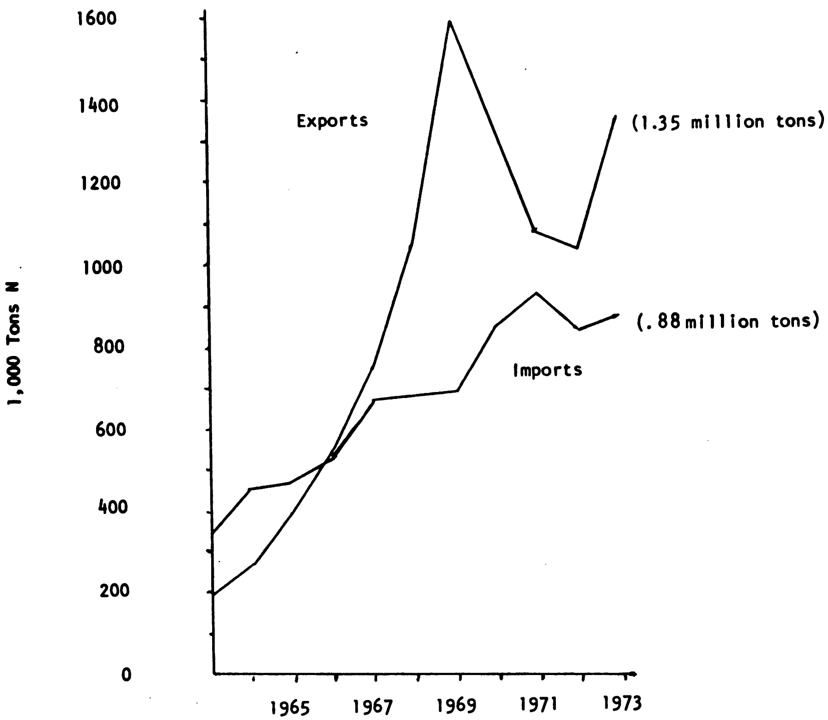
To graphically point out our position in the world market, the following figures are applicable. In 1973, the following export/import comparison existed (See Figures 1, 2, and 3): The U.S. *exported* a total of 3.69 million tons of the combined fertilizer products, nitrogen, phosphate, and potash. The U.S. *imported* a total of 4.38 million tons of those products. Thus, we are a net importer of .69 million tons of fertilizer. This is primarily due to our great dependence on imported potash.

It would be a great mistake to tamper with this finely balanced and interwoven import/export situation.

A March 21, 1974, report of the Economic Research Service of the USDA predicted the following: In 1974, exported nitrogen would rise to 14 per cent of U.S. production, exported phosphate would reach 25 per cent of U.S. production, and imported potash would be 133 per cent of U.S. potash needs. Since the CLC removed price controls in October, 1973, the industry has voluntarily reduced exports at the request of the administration.

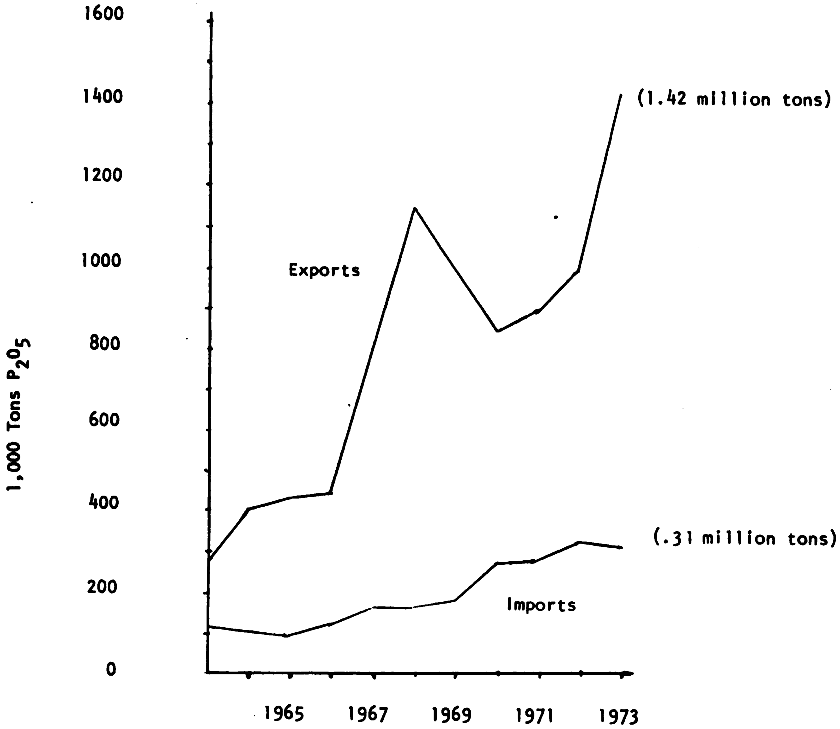
At the March 8 hearings in Omaha, Nebraska, Senator George McGovern reported that figures actually showed nitrogen exports had dramatically dropped to 4.3 per cent and phosphate exports have decreased to 20 per cent of production. What has happened to potash?—Let this be a warning to proponents of an export embargo. Since the industry's voluntary reduction of exported nitrogen and phosphate, imports of potash have dropped 23 per cent below USDA predictions to 106 per cent of need.

Figure 1--U.S. Nitrogen Imports and Exports; 1963-73



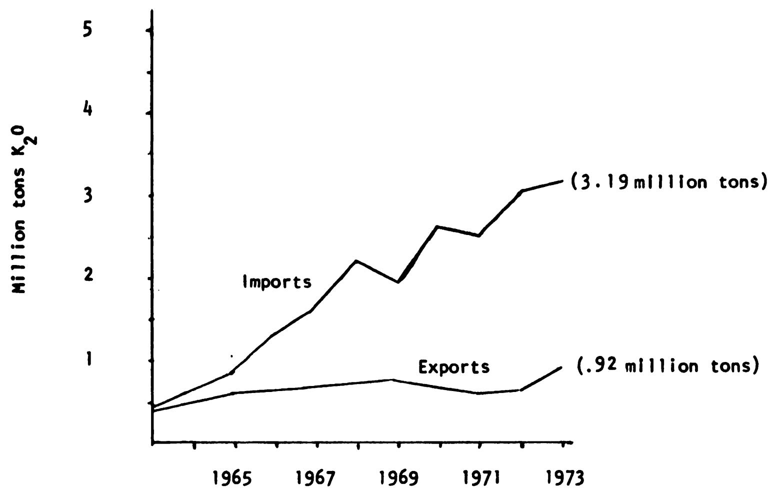
SOURCE: The Fertilizer Supply; 1972-73, Agricultural Stabilization and Conservation Service, USDA, Washington, D. C., April, 1973.

Figure 2--U.S. Phosphate Imports and Exports; 1963-73



SOURCE: The Fertilizer Supply; 1972-73, Agricultural Stabilization and Conservation Service, USDA, Washington, D. C., April, 1973.

Figure 3--U.S. Potash Imports and Exports; 1963-73



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I feel there are two areas which we could discuss which would be of help to at least partially solve some of the problems facing the independent retail fertilizer dealer and his farmer customers. First, the retail fertilizer dealer is caught between government statistical reporting and what we feel is actually the truth. The USDA continually reports there is somewhere between a 5 and 10 per cent shortage. If this is the case, why is every State Fertilizer Association along with State Department of Agriculture Commissioners reporting upwards of 30 per cent shortage—especially of nitrogen products? For example, in a March 7, 1974, meeting of the Midwest Departments of Agriculture held prior to the March 8, 1974, McGovern Subcommittee held in Omaha, Nebraska, the following state figures were stated:

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In order to come up with a half-way logical planning program, the fertilizer dealer and farmers must have some idea as to what to expect in the way of raw materials.

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Many other factors have contributed to the shortage. The government has called for all-out production, placing some 35 million new acres of farmland into service. Agricultural prices are, for the first time in two decades, high enough to encourage many farmers to want to increase production.

Environmental standards and regulations forcing many older plants to discontinue or curtail operations must be carefully scrutinized. While we must not drop our goals of a clean and productive environment, we may be forced to weigh our priorities.

We must encourage the federal energy office to increase the priority of use of natural gas by fertilizer producing operations and allocations of gas for new and existing plants must be made.

The Congress can best help the fertilizer industry, and for that matter all of Agriculture, by not imposing any embargo at this crucial moment in our industry's future.

The fertilizer industry is a world-wide market with world-wide raw materials. Our Association sees no need for artificial barriers which would limit the domestic fertilizer industry from competing for these world-wide raw materials.

Mr. Ashley. Thank you, Mr. Gilliland. I must say that there is considerable unanimity of view among the panelists before the subcommittee at this time, and it is interesting that I might also say that your presentations have been very persuasive. You have assembled very convincing data. I am somewhat surprised by the fact that the proponents of the legislation that would embargo fertilizer have not asked for the opportunity to testify before the subcommittee.

Mr. Wheeler. May I make a comment on that, Mr. Chairman?

Mr. Ashley. By all means.

Mr. Wheeler. Mr. Mathis of Georgia has been the papa bear of this legislation The other day, I sent Dawson a note; as of the end of February, the State tax records of the State of Georgia show that the industry delivered to that State 62 percent more material than they had delivered in he same time a year ago. To be sure, a year ago was a record setter for the State of Georgia.

Now, we recognize that, even then, the Georgia farmer cannot get all he wants with cotton contracted at 60 to 65 cents from our friends in the Far East, and so forth. But I swear that I do not know of an agricultural input industry that has done any better than a 62-percent gain. I can assure you that the farm machinery industry has not stepped up its tractor deliveries into Georgia at that rate, or bailing wire, or pesticides, or herbicides. So that, while we do not profess to be here in the form of lily white, we are not all bad.

Mr. Ashley. Well, it seems to me you are better than you might suggest, because your testimony says that an embargo might, indeed, make available more fertilizer to the American farmer for the short term, but not for the long term; that it cannot, in the long term, because of the dislocations and the uncertainties with respect to the capital market. Is that not the thrust of the testimony that you have given?

Mr. Wheeler. Precisely.

Mr. Ashley. Do you have a comment on that, Mr. Weller?

Mr. Weller. Well, we agree with the Fertilizer Institute, Mr. Chairman, in that you might conceivably have short-term gains in some product on the domestic market. However, in the long term, we are going to suffer, and the one who is going to suffer most is going to be the American farmer, because he is going to lose his world markets; and we feel very strongly that there is little we can do for the rest of the 1974 year, and this is something that we are going to have to look on a long-term basis.

Mr. Ashley. Well, even for the short term, if the embargo legislation were adopted, retaliation might be sufficiently swift that available fertilizer for domestic use would very probably be diminished.

Is that not a possibility?

Mr. Weller. But it could be counterproductive, Mr. Chairman, because as all of us here pointed out, we have to trade in fertilizer ingredients with other countries.

Mr. Ashley. Well, that is what I am getting at.

Mr. WELLER. So we might even decrease—I do not have the figures in front of me—we might even decrease our supply availability.

Mr. WHEELER. Because our mines that supply the indigenous potash are located in Carlsbad, N. Mex., we could not begin to step up mining in Carlsbad to overcome 5 million tons loss out of Canada. The Canadian farm organizations, Mr. Chairman, are putting great pressure on the Federal Government to restrict the flow of nitrogen into the United States right now, because the border States get most of their nitrogen out of the Canadians. The shipping organization that handles all of the phosphate rock going into Canada has stepped up the shipments to Canada to overcome the complaints up there on this fertilizer thing.

Now, Phosrock—Phosrock Export Association—which controls 90 percent of all phosphate rock exported out of the United States, which is about 13 million tons, has announced into Europe a sharp cutback to them, to first be sure that no American plant is short on phosphate rock; and second, to be darn sure that Canada gets all they can use, because these companies are scared to death the Canadians will turn us off.

Mr. ASHLEY. Well, that is very helpful testimony. There will, in all likelihood, be additional questions, but because of the time constraints, I am going to thank you at this time for your presentations this morning.

The subcommittee will stand in recess until 2 p.m. on Monday.

[Whereupon, at 11:35 a.m., the subcommittee recessed, to reconvene at 2 p.m., Monday, April 29, 1974.]

INTERNATIONAL ECONOMIC POLICY

MONDAY, APRIL 29, 1974

House of Representatives,
Subcommittee on Inrernational Trade
of the Committee on Banking and Currency,
Washington, D.C.

The subcommittee met at 2:15 p.m., pursuant to notice, in room 2128 Rayburn House Office Building, Hon. Thomas L. Ashley (chairman of the subcommittee) presiding.

Present: Representatives Ashley, Sullivan, Blackburn, McKinney, Frenzel, and Conlan.

Mr. Ashley. The subcommittee will come to order.

There is important legislation being considered on the floor this afternoon. Because of time constraints upon us and you gentlemen, we will now resume the hearings of the subcommittee on pending international economic policy legislation, with the principal focus on export control policy. Testimony will be taken from six public witnesses, each of whom will give an oral summary of his prepared statement, following which the witnesses will be available for questioning by members of the subcommittee.

Our first witness this afternoon is Dr. C. Lester Hogan, president of the Fairchild Camera and Instrument Corp. Dr. Hogan, if you will proceed.

STATEMENT OF DR. C. LESTER HOGAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER OF FAIRCHILD CAMERA AND INSTRUMENT CORP.

Dr. Hogan. Mr. Ashley and members of the House Banking and Currency Committee, I greatly appreciate the opportunity to be here and would like to thank you for allowing me to comment briefly on expanded trade with Eastern Europe.

I firmly believe that our semiconductor industry has today an unprecedented opportunity for trade in Eastern Europe, which we cannot afford to overlook. This opportunity may never arise again, and the timing is critical.

Countries in Eastern Europe want our trade and technologies. They will pay for them in dollars and—more important—they will pay for them with a major share of a new market in this new, emerging world marketplace.

Let me emphasize from the outset that I am not advocating the transfer of any technologies or products which would jeopardize our national security. If U.S. Government and industry, working in coop-

eration, carefully scrutinize each transaction, this should not be a problem.

In the free world, wherever and whenever American semiconductor firms have participated in an environment of free and equitable trade competition, they have invariably succeeded in gaining a position of strength. The rewards are not limited to our industry alone.

There are beneficial effects on domestic employment as well as on balance of trade payments. In addition, our industry has wrought a real revolution in the entire electronics industry. I would like to give a couple of examples of that.

I think all of you are familiar with the little electronic shirt pocket calculators that have become so popular in the world today. Only 3 years ago 75 percent of all the electronic calculators that were sold in the United States were manufactured in Japan. In the last 3 years we have reversed that particular ratio. Today 75 percent of all the electronic calculators sold in the United States are manufactured in the United States. That is the result of a revolution created by American semiconductor technology, where today on a very small chip of silicon less than a quarter of an inch square, we are able to put all of the electronics for all of the logic and all of the memory that is required in an electronic calculator.

As a result, the assembly time has been decreased to just a few minutes, and American manufacturers can now pay American wage scales and at the same time compete with anyone else in the world.

Another example—I happen to be wearing one today—involves the new electronic wristwatches. There are no moving parts on this wristwatch. This is purely an electronic watch with several thousand transistors inside. This is a gee whiz item today, I admit. But 10 years from today it will not be a gee whiz item. Within 10 years there will be no other wristwatches sold in the world except electronic wristwatches.

As a result of the health and vigor of the semiconductor industry, we will then bring the watch industry back to the United States. It too, will be an American-dominated industry.

Today, at Fairchild, we are working on a one-chip AM–FM radio. It is still in the R. & D. stages, but we believe within the next 2 years we will be able to put all of the functions of an AM–FM radio again on a small chip of silicon. If the American semiconductor industry can achieve that result, we will bring back to the United States the radio industry which left the United States long ago.

These are just a few of the examples of the effects which our industry has had, or will have, on the total electronics industry in the United States.

Now, I would like to touch briefly this afternoon on three important points: First is the Eastern European market opportunity for our semiconductor industry. Second, the need that we have for continual growth in our industry. Third, some of our industry's contributions.

Now, if you can refer to page 6 of my written testimony, I give there a table which shows the opportunity which is available. It is our estimate of the Eastern European semiconductor market from the years 1973 through 1980. You will see that in 1973 there was a total

semiconductor market available of $400 million, going to $1 billion by 1980.

Now, we think that given a proper chance to compete we can very conservatively capture at least 45 percent of that available market. We have already captured 65 percent of the Western European market. So we do not think that we are being overly optimistic to say that the U.S. industry could capture 45 percent of this market. Now, if we do capture 45 percent of this market, it would add up to some $2.3 billion in exports of semiconductors from the United States to Eastern Europe in the next 6 years.

$2.3 billion represents a tremendous contribution to the trade balance of the United Staes, and if we do not get this business, it will go to Japan and/or Western Europe. If, for instance, it goes to Japan, it would represent 15 percent of the total semiconductor business now being conducted by the Japanese, and hence would contribute greatly to their worldwide share of market, and would make them even more competitive with us, both in the United States and in Western Europe.

Competition in our field of integrated circuits comes from both Western Europe and from Japan, and these are real competitors, even though we have 65 percent of the total market in Western Europe.

There are some very fine, very large, well-financed companies in Western Europe. They already are doing business with Eastern Europe. SESCOSEM in France, which is a division of C. S. F. Thompson, has already built integrated circuit plants in Poland and Rumania, and as a result of this they already have been able to capture a sizable percentage of the available semiconductor market in these areas.

If we do not go out and get our fair share of this market, we will lose world market share. We will lose potential growth and profitability. We will lose dollars that could be used in R. & D. expenditures in order to help us advance our technology even further.

I think the business risks of transferring appropriate technologies to Eastern European countries have often been overstated, and I think, on the other hand, transfer in technology can actually be a positive factor for the United States. As an example, we estimate that it would take 3 to 5 years to transfer the very complex technology to any borrower, whether it be Western Europe, Japan or Eastern Europe. Within a 3- to 5-year timespan our semiconductor industry moves dramatically into brandnew areas.

As an example of that, we just recently made an analysis of the total sales of Fairchild Camera in 1973—our semiconductor sales—and found that some 30 percent of our total dollar volume last year consisted of products that did not even exist 2 years previously. This gives you a feel for the rate of change of our technology.

The important thing is not to guard today's production techniques, but to guard very carefully tomorrow's technologies. It is tomorrow when we will be using a new technology, and it is tomorrow's technologies which we must protect.

In terms of our industry's need for continual growth, recent studies have been made by the Boston Consulting Group in Boston, Mass., showing the effect of volume on costs, not only in our industry but in

many other industries. On pages 11 and 12 I have shown two curves taken from the studies of the Boston Consulting Group showing how our industry costs decrease as our volumes increase. Roughly, whenever our industry volume doubles we are able to reduce our costs someplace between 20 and 30 percent.

The data of the Boston Consulting Group runs out in 1968. They have not updated it, but I can assure you that our industry has stayed on this cost curve, and if, for instance, one takes figure 3 on page 12, where the Boston Consulting Group drops out at about $1.50 for the price, those prices today are now about 50 cents because of increased volume in our industry. So if we are to keep a price advantage and to stay competitive with the rest of the world, it is very important that we get our share of this new market and not let it go to Japan or Western Europe.

Our industry growth is extremely rapid. The free world market for semiconductors this year is expected to total $5.5 billion, and the United States owns 62 percent of that, even though we do not use 62 percent of the semiconductors in the United States. We use only 48 percent. We actually own the production facilities around the world for producing 62 percent.

We estimate that by 1980 we will own a minimum of 64 percent of the production facilities for semiconductor devices, and if we are able to get our fair share of the Eastern European market, that could easily go to 70 percent. Gentlemen, I can assure you that if the United States could ever get 70 percent of the semiconductor production in the world, there would be no country in the world that would have an opportunity of building competitive calculators, computers, electronic wristwatches, radios, television sets. We would own the entire electronics industry of tomorrow.

Our industry always has been a very strong contributor to balance of trade. In 1974 we estimate that we will have a positive belance of trade of approximately $600 million, or about 15 percent of the total estimated positive balance of trade in the United States.

There are many other curves that are included in my prepared testimony. Gentlemen, I have covered most of the pertinent points. In conclusion, I would like to emphasize that the opportunity in Eastern Europe is a golden one for both our business and our Nation. Now is the time to act. High technology businesses like the semiconductor industry are willing to meet this challenge.

Thank you.

[The prepared statement of Dr. Hogan follows:]

STATEMENT OF DR. C. LESTER HOGAN
PRESIDENT AND CHIEF EXECUTIVE OFFICER
FAIRCHILD CAMERA AND INSTRUMENT CORPORATION
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE HOUSE BANKING AND CURRENCY COMMITTEE

THE U. S. SEMICONDUCTOR INDUSTRY OPPORTUNITY IN EASTERN EUROPE

MONDAY, APRIL 29, 1974

SUMMARY

The United States today has an opportunity for trade in Eastern Europe which may never occur again.

The Eastern European countries want our products and technologies, and they want them from the source -- the United States semiconductor industry. For the most part, it is our production technologies of today which satisfy their needs. To gain such technologies, they are willing not only to pay substantial amounts of dollars but -- what is even more important -- to also grant a major share of their new and emerging world marketplace. In light of mounting competition from Japan and Western Europe, this business might well be essential in order for the U. S. semiconductor industry to retain its dominant position in international markets.

The U. S., indeed, holds a leading position in world semiconductor markets but we do not want to jeopardize this position by, in effect, losing that marketplace by default as the result of unnecessarily restrictive trade policies. By selling Eastern Europe today's technology, we are not threatening our future competitive position which depends on tomorrow's technologies.

The U. S. semiconductor industry must expand into other world markets to maintain its healthy growth rate and retain its leading position in the industry. For the semiconductor industry, Eastern Europe is the largest emerging marketplace.

The U. S. market as a portion of the total Free World market for semiconductors is expected to decrease from 48 to 42 percent during the balance of the 1970s. Our industry's future success therefore will depend on (1) increasing exports, and/or (2) transferring selected technologies to foreign facilities when required to gain a market position.

Assuming U. S.-owned companies could capture just 45 percent of the 1974-80 cumulative market of $5.2 billion in Eastern European nations, our market therefore would be $2.3 billion, representing roughly 8 billion semiconductor units. This volume of business would permit U. S. companies to: (1) improve their positive impact on U. S. balance of trade; (2) employ additional U. S. workers, scientists and engineers; (3) invest more into research and development which will encourage and produce more sophisticated products; (4) strengthen and protect their world competitive position; and (5) benefit other U. S. industries which are suppliers to the U. S. semiconductor business.

If the Japanese semiconductor industry were to gain this $2.3 billion worth of business in Eastern Europe, it would represent a 15 percent increase in that country's semiconductor business over the same time period. This would mark a significant contribution to their ability to fund research and development, further enhancing their capability to confront the U. S. in world markets.

I would like to emphasize that we are not advocating relaxation of those controls necessary for national security -- quite the contrary. We are urging that the government, whenever national security is not jeopardized, closely examine the positive business benefits of trade in each transaction. Just as we must be vigilant in protecting our national security, we must be diligent in not losing the benefits of trade in Eastern Europe.

I therefore request that the House Banking and Currency Committee prepare amendments to the Export Administration Act which will give some assurance that transactions which offer significant economic, political and other benefits to the United States are not prohibited due to the lack of adequate review.

STATEMENT OF C. LESTER HOGAN

Introduction

Mr. Chairman and members of the House Banking and Currency Committee . . .

I greatly appreciate the opportunity to be here and would like to thank you for allowing me to comment briefly on expanded trade with Eastern Europe.

I firmly believe our semiconductor industry today has an unprecedented opportunity for trade in Eastern Europe which we cannot afford to overlook. This opportunity may never arise again, and the timing is critical.

Countries in Eastern Europe want our trade and technologies. They will pay for them in dollars and -- more important -- a major share of market in a new and emerging world marketplace. This is most crucial, for example, for the United States semiconductor industry to retain its leadership against the mounting tide of competition from Japan and Western Europe.

Let me emphasize from the outset that I am not advocating the transfer of any technologies or products which would jeopardize our national security. If U.S. government and industry, working in cooperation, carefully scrutinize each transaction, this should not be a problem.

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I would like to use my own industry as an example of what Eastern Europe can mean to U.S. business and other interests. The United States semiconductor industry has always taken a strong position in favor of free and equitable trade policies in the world marketplace. In the Free World, wherever and whenever American semiconductor firms have participated in an environment of free and equitable trade competition, they invariably have succeeded in gaining a position of strength. It is therefore imperative that we not impose unwarranted trade constraints on ourselves elsewhere. U.S. companies must be provided every opportunity to do business on all foreign shores without unnecessary constraints.

The rewards are not limited to our industry alone. There are beneficial effects on such important national concerns as balance of trade and domestic employment and payrolls. The semiconductor industry also has a direct impact on many large U.S. industries that utilize solid-state devices in their products.

I would like to touch briefly this afternoon on the subjects of: (1) the Eastern European market opportunity; (2) the need for continual growth in our industry; (3) the contributions of the U.S. semiconductor industry.

Let's first look at the Eastern European opportunity.

1. The Eastern European Market Opportunity

Eastern Europe represents the last large consumer marketplace in the world which has yet to be penetrated by the U.S. semiconductor industry. Nonetheless, this marketplace already has demonstrated substantial promise.

Consumption of semiconductor devices in Eastern Europe was about $400 million last year, and is expected to increase to $1 billion annually by 1980 (see Figure 1).

THE EASTERN EUROPEAN SEMICONDUCTOR MARKET
1973-1980
(Millions of Dollars)

Product Line	1973	1974	1975	1976	1977	1978	1979	1980
Discrete Semiconductors	$248	$276	$310	$333	$353	$356	$348	$344
Digital Bipolar ICs	97	127	145	168	183	195	207	220
Linear ICs	23	29	42	55	70	88	110	136
MOS ICs	12	23	40	62	90	126	168	210
Hybrid ICs	20	25	33	42	54	65	77	90
Totals	$400	$480	$570	$660	$750	$830	$910	$1000

Source: Fairchild MR&P

Figure 1

Assuming that U. S. -owned companies could capture 45 percent of the 1980 market (less than that now realized in Western Europe, which is 65 percent) the sales by U. S. -owned companies that year would be augmented by $450 million. This level can be realistically obtained in the Socialist countries by carefully negotiating agreements which specify a market share in return for products and technologies. Cumulative sales for the U.S. during the 1974-1980 time span would then be $2. 3 billion. This level of business corresponds to roughly 8 billion cumulative units for addition to the U. S. semiconductor industry's volume. As a result, significant participation in the Eastern European market would greatly enhance the industry's world competitive position because our industry's prices are highly reliant on volumes, as I'll explain later on.

If this Eastern European business should go to Japan, however, we would find the $2. 3 billion addition to the Japanese semiconductor industry representing 15 percent of their business for the remainder of the decade. This would undoubtedly allow the Japanese to enhance their research and development capability and thus pose a severe threat to the U. S. in the world market.

In 1980, the semiconductor market represented by the rest of the world (outside the U. S., Japan, Western Europe, and Eastern Europe) will total only about half of the Eastern European market, and will be considerably more geographically dispersed (India, South America, the Middle East, South Africa, Australia, etc.). Therefore, if the U. S. semiconductor industry is to sufficiently expand, it has little choice: it <u>must</u> participate in the Eastern European market.

What would happen if the United States elects not to pursue the Eastern European market? Quite simply, our competitors in Japan and Western Europe undoubtedly will.

Let's again consider our Japanese competition. Japan recently announced state-of-the-art developments in large-scale MOS integrated circuits rivaling those of the best U. S. manufacturers. And Japan already has established MOS supply agreements with Eastern Europe. Export of products and technologies is the lifeblood of today's Japanese economy.

Competition in integrated circuits also comes from Western Europe. For example, bipolar integrated circuit technology was licensed by SESCOSEM of France to Eastern Europe in 1970. Other European companies have comparable and even better capabilities.

It is clear that Eastern European countries already have the opportunity to approach our Free World allies, at the expense of U. S. businesses.

The result is that if the U. S. government should decide not to ease export restrictions to Eastern Europe, our world semiconductor market share, growth and profitability would be curtailed. This means reduced R&D expenditures at a time when the cost for commercializing new technologies is going up, reduced employment of our technological talent, a general weakening of U. S. electronics technology and perhaps even our defense preparedness.

Should the U. S. government decide to ease export restrictions, a limited number of U. S. companies would receive in return for our consumer-oriented technical know-how a major share of the available market.

The business risks of transferring appropriate technologies to Eastern European countries have often been overstated and actually can be a positive factor for the U. S. For example, it takes roughly three-to-five years to transfer any complex technology to a borrower nation. Within that time span the U. S. semiconductor industry has moved to advanced generations of technologies. An agreement concerning a particular technology will discourage the borrower from leap-frogging to another possibly more advanced technology.

Furthermore, as it has in the U. S., this will make the borrower even more dependent on the U. S. and will actually permit us to establish and guide growth and development into new markets.

In an industry such as ours, with its rapid technological change, we can sell today's technologies without hurting our own competitive position. Tomorrow we will be using a new, more advanced technology.

We believe that with the semiconductor industry's cooperation, our government can both carefully scrutinize trade opportunities and protect our national defense. We urge today only that the search for beneficial trade be just as diligent as the protection of our national security.

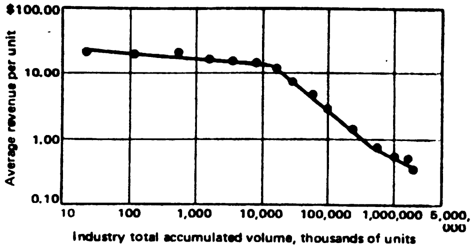
If we are unnecessarily overprotective, we end up by weakening -- not strengthening -- our position.

2. The Need for Continual Growth in the Industry

Certainly, U. S.-owned semiconductor companies have an enviable share of the Free World market. But, during recent years, other countries have strengthened their capability. Japan, for example, in the last several months, announced availability of two of the world's most sophisticated large-scale integrated circuit growth product lines: the microprocessor, and the 4,096-bit NMOS random-access memory.

The U. S. semiconductor industry must keep moving forward to maintain its position of dominance. Our most important strength is not just advanced technology per se, but economies of scale and the accumulated experience obtained from having produced several tens of billions of semiconductor devices. I contend that with the Eastern market, even if the technological gap were reduced to zero in a few years, the U.S. would be producing so many devices that our competitive cost position would be such that we could not be dislodged from industry leadership.

In recent years the relationship between total business cost (per unit volume) and production volume has been established by the Boston Consulting Group. In general, their relationship is that industry (or company) costs decrease between 20 and 30 percent every time cumulative unit production (or experience) doubles. Because costs drop substantially with accumulated experience, the absolute decrease is closely related to the rate at which the industry (or company) accumulates its experience. If the market is growing rapidly, the company which captures a major share will have a faster decline in costs than its competitors -- thus perpetuating its cost and competitive leadership. It will develop a learning curve similar to those for silicon transistors (see Figure 2) and integrated circuits (see Figure 3):



Revenue curve for silicon transistors during the period from 1954 to 1968.

Figure 2: Revenue (or Price) Curve for Silicon Transistors, 1954-1968

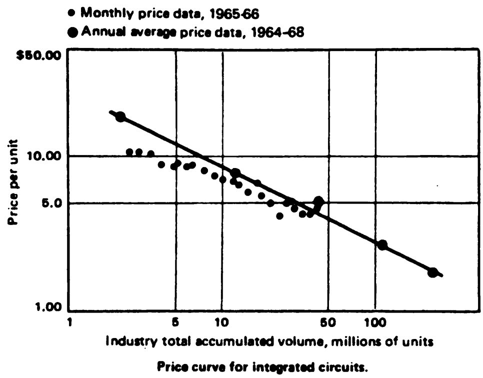


Figure 3: Price (or Revenue) Curve for Integrated Circuits

Source: Dr. Patrick Conley, Experience Curves As a Planning Tool: A Special Commentary (Boston Consulting Group, 1970). pp. 8-9.

The price advantage that U. S. semiconductor companies enjoy in the world marketplace can be lost if these companies do not extend their accumulated volume rapidly. This cannot be done without penetration of new markets.

There is another important reason why the U. S. industry needs to expand. Survival of our "knowledge-based" industry greatly depends upon our ability to recruit and retain the best educated, creative, young, and dedicated people.

I'd now like to discuss the contributions of the U. S. semiconductor industry to our nation -- from the standpoint of balance of trade, employment and other important economic factors.

3. The Contributions of the U. S. Semiconductor Industry

The U. S. semiconductor industry presently competes in a Free World market expected to total $5. 5 billion this year. U. S. -owned companies will satisfy 62 percent of this market requirement (see Figure 4), representing a contribution of $3. 4 billion. All of the data I'm now using encompasses only the Free World.

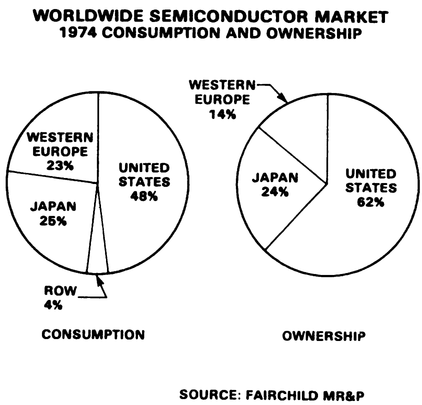


Figure 4

U. S. companies, if allowed to compete fairly on the international scene, are expected to slightly increase their share during the remainder of this decade, capturing 64 percent of the market by 1980 (see Figure 5), representing $7.3 billion.

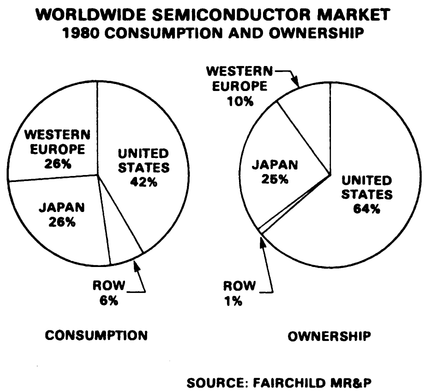


Figure 5

Although the U. S. industry's production domination will not really increase much, it is significant when recognized that the U. S. market share of the total Free World market is expected to decrease from 48 to 42 percent during the same period of time. The industry's success in keeping pace with foreign-based semiconductor companies will therefore depend on (1) increasing exports, and/or (2) transferring selected technologies to foreign facilities when required to gain a market position.

Strength of the U.S. semiconductor industry is also demonstrated by a consistently positive balance of trade for more than a decade. The U.S. industry's balance of trade has increased by a factor of more than 10, from approximately $50 million in 1964 to an expected level of $600 million this year (see Figure 6).

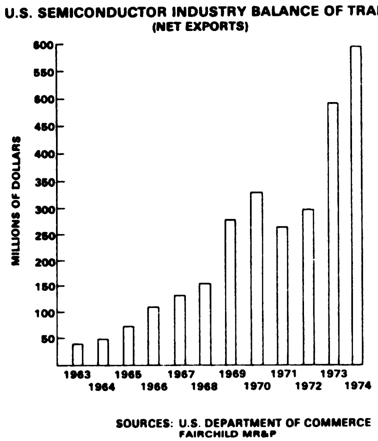


Figure 6

This record has been considerably better and perhaps even countercyclical to the erratic balance of trade pattern for the United States (see Figure 7).

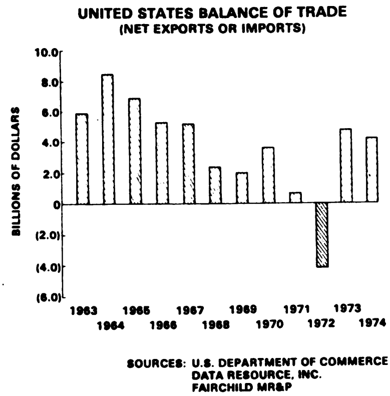


Figure 7

The industry has enjoyed a positive balance of trade in all of what are currently the major semiconductor markets outside the U. S. -- West Germany, the United Kingdom, France and Japan (see Figures 8, 9, 10, 11).

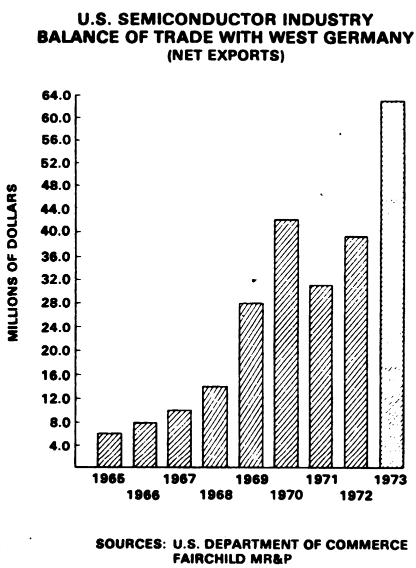


Figure 8

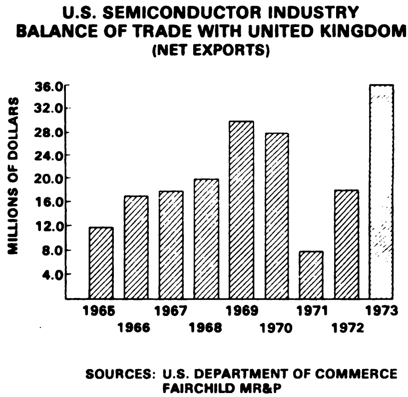


Figure 9

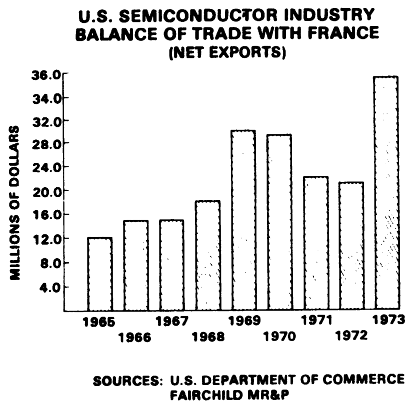


Figure 10

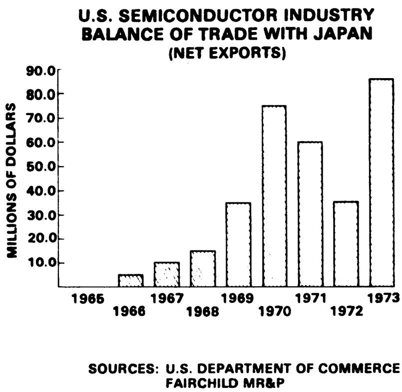


Figure 11

The U. S.-owned semiconductor industry's balance of trade is highly positive in Japan and this is despite the fact that capital investment restrictions have prevented U. S. companies from establishing a strong internal manufacturing position that would otherwise increase U. S. participation in that market.

Despite certain restrictive policies in other Free World Countries, Fairchild and other American firms have been able to increase their sales. My company's sales in Western Europe, for instance, have increased 200 percent in the past two years. We've also seen comparable increases in the Far East and in Japan we've actually more than tripled our business in the same period. I have specific charts or other information available on Fairchild's balance of trade performance in these sectors and would be more than happy to provide these, if you wish. However, today I have concentrated on the total industry information only.

Another strength of the semiconductor industry is its creation of more jobs for U.S. workers (see Figure 12) during a period in which our foreign business and manufacturing have been expanded. The industry domestic work force reached a level in excess of 100,000 last year, and is expected to increase by about 20,000 jobs this year.

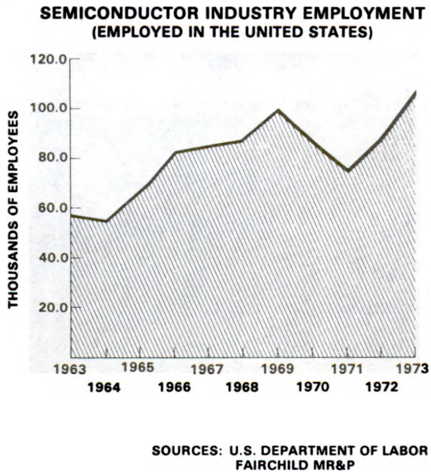


Figure 12

Over the past decade U.S. payrolls in the semiconductor industry also showed significant growth (see Figure 13). Following a slight downturn during the recession, industry payrolls have now surpassed the peak levels of 1969, standing at the $950 million mark and more than doubling during the last decade.

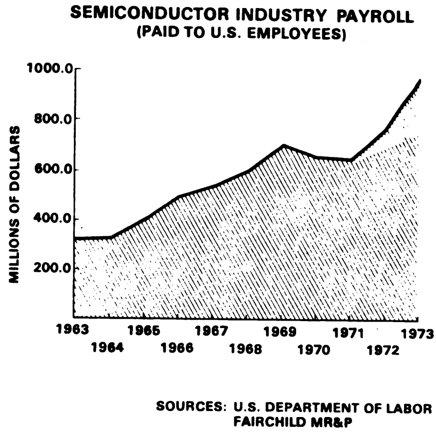


Figure 13

A fairly unique strength of the semiconductor industry is its ability to fight inflation. The semiconductor industry is an anti-inflationary business in an inflation-plagued world. Average selling prices for semiconductor devices continually decline as new technologies are introduced, as unit volume increases, and as manufacturing cost reductions are realized (see Figure 14).

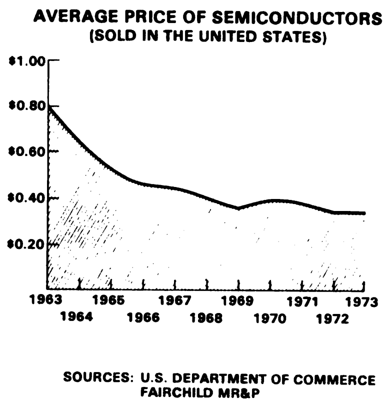


Figure 14

Price declines have exceeded 10 percent annually during the past 10 years for many types of semiconductor devices.

In conclusion, I'd like to emphasize that the opportunity in Eastern Europe is a golden one for both our business, and our nation. Now is the time to act. High technology businesses like the semiconductor industry are willing to meet this challenge.

Thank you.

Mr. Ashley. Thank you, Dr. Hogan. It is a very, very encouraging statement.

Our next witness is William C. Norris, chairman of the board and chief executive officer of Control Data Corp.

Mr. Norris, I am pleased to greet you, and I have been asked to do so in an especially cordial and friendly manner by, I am sure, our mutual friend, Congressman Bill Frenzel. The Congressman is a very fine man, a very capable member of the subcommittee. At the last minute rather urgent business has called him away. He did ask that I extend greetings in his behalf.

If you will proceed, sir.

STATEMENT OF WILLIAM C. NORRIS, CHAIRMAN AND CHIEF EXECUTIVE OFFICER OF CONTROL DATA CORP.

Mr. Norris. Thank you, sir.

I am doubly pleased at the opportunity to appear before this subcommittee to express my views concerning pending legislation which would renew and amend the Export Administration Act of 1969 and the Export-Import Bank Act of 1945. At the same time, I would like to comment on relevant aspects of Control Data's program of technological interchange with the U.S.S.R.

Control Data is a major manufacturer of computers and related computer peripheral equipment, not only for our own systems needs, but for other computer manufacturers in the United States and abroad. In 1973, our computer operations produced revenues of $948 million.

We operate in 31 countries worldwide. In the years 1971, 1972, and 1973, Control Data's overseas sales were $204, $270, and $330 million, respectively. This high rate of growth in Control Data's overseas sales is characteristic of the growth rate achieved by the entire U.S.-based computer industry over the same period.

Statistics published by the U.S. Department of Commerce indicate that the U.S. computer industry alone contributed to the favorable U.S. balance of trade by $1.5 billion in 1973. We need only to compare this balance with the overall U.S. trade surplus of $1.76 billion to appreciate its significance. I would like to note here a typographical error in my statement which was filed with the staff.

With these figures in mind, it would be well to pause and reflect on the consistent growth rate in overseas sales which has been experienced by the computer industry, not only in terms of the environment which made it possible, but in terms for the potential for stunting this growth through tampering with that environment.

I conclude that since 1945 the restrictive nature of export legislation and the lengthy administrative procedures surrounding export licenses for computers have served the United States poorly. We have violated a cardinal rule by being difficult to do business with.

There can be little doubt that this was our intent. Now let us examine the consequences. The COMECON nations, under U.S.S.R. leadership, have cooperatively launched an effort to develop their own computer industry based upon a family of machines popularly called the Ryad Series.

Although there has been speculation in recent years over their progress, it now is evident that the program is largely under control. Although probably behind schedule somewhat, computers are being delivered now.

At least one model, the 1040, an intermediate scale system, is being prepared by East Germany for export markets. Potential Control Data customers throughout Eastern Europe are being directed to use Ryad equipment rather than the computers of United States or West European manufacturers.

Earlier attention to the developing plans of the COMECON nations might have given to the United States insight leading to policies and regulations that would have permitted us a larger share of the U.S.S.R.-East European computer market that now appears destined to gravitate to their own Ryad computers. The market divides between computers and computer peripheral equipment.

There is still an opportunity for computer peripheral sales. However, if we do not adjust United States and COCOM controls to permit U.S. manufacturers the opportunity to satisfy the requirement for peripheral products on the Ryad Series, we will provide to the COMECON countries the incentives to spawn their own computer peripheral industry as they have spawned a computer industry, or obtain what they need from other countries.

Turning back to my original statements referring to the growth of the computer industry, we should realize that in spite of phenomenal growth in the past, we are today approaching a period where previous rates of market expansion will no longer be enjoyed unless we find new markets. This is brought about by a constantly diminishing technology gap. Western Europe and Japan are rapidly approaching, and in some cases have achieved, a technological parity with the United States.

Further, I note the Ryad computer program is progressing, that peripheral equipment technology now available in Eastern Europe is only 3 to 4 years behind the United States, and there is no evidence that I know of that the U.S.S.R. has been unable to carry out any important military project for lack of computer technology.

I conclude that, to avail ourselves of the dwindling oportunities, it is essential to move rapidly into the U.S.S.R. and East European marketplace which hold significant potential over the next 10 years. Otherwise, our foreign competition and the indigenous industry that I referred to will preempt the opportunity.

At this point, I will outline Control Data's philosophy on doing business with the U.S.S.R. and Eastern Europe, including our policy on technology interchange.

Control Data supports the May 1972 summit agreement on scientific and technological cooperation and the other signed cooperative agreements between the United States and U.S.S.R. in the fields of transportation, atomic energy, space, medical science, environmental protection, and the world ocean.

We believe that the United States should rapidly and aggressively pursue cooperative programs with the U.S.S.R. as well as other countries. Otherwise, we will deny ourselves timely and adequate solutions to many long-term problems, including energy, environmental protection, transportation, education, and health care.

It is becoming increasingly clear that the United States by itself does not have the resources to adequately solve long-term energy and environmental problems, but must seek the involvement of other nations.

Present sources of funds in the United States are strained to merely support the present inadequate educational system and a large investment in research and development will be required to bring about major improvement.

How does the United States pay for the urgent need for better medical care?

Technological development could provide it—if there were additional resources to commit to it. Cooperative efforts with the U.S.S.R. could provide more effective and less costly solutions much sooner.

In this area, I am pleased to say some significant progress has been made already in cooperative efforts in the fields of medical health with the U.S.S.R. under the Govenment agreements.

Because of some of the characteristics of the U.S.S.R. and its population, there are certain studies that can be carried on in the U.S.S.R. that would not be possible in the United States. An example is in their study of cancer of the esophagus. This disease occurs at an extremely high rate in the area surrounding the Caspian Sea. This phenomenon does not occur elsewhere in the U.S.S.R. or in the United States.

Another factor is that the U.S.S.R. has a highly structured system for health care, while in the United States our system is highly decentralized. They are making a tremendous effort to determine the status of the health of their citizens as well as the health care they receive.

During the last census, Soviets were expected to fill out a detailed health questionnaire. Approximately 1 million people were then selected for a physical examination to determine the correlation between the census reports and their actual state of health. In addition, approximately 50,000 Soviets were given a detailed clinical examination to further determine the correlation.

This type of sweeping systems approach is possible in the U.S.S.R. in the field of education as well.

It makes the U.S.S.R. an extremely attractive partner for cooperative activities in health and education, since they have the structure to implement pilot procedures of a substantial scale which we believe are a necessary ingredient to major progress in applying computer technology to these fields.

A significant Soviet resource potential in many cooperative endeavors is the huge reservoir of research personnel. It is important to keep in mind that Russia has more basic scientists than any other country.

In the United States most of our technical talent resides in applied scientists and engineers, as opposed to Russia, where many of the better ones have gone into the pure science fields of physics, mathematics, chemistry, et cetera. There is a basis for a natural marriage on projects with the U.S.S.R. concentrating more on the production of basic knowledge and U.S. engineers applying the technology to the solution of problems.

Another benefit of cooperation, for Control Data at least, is the aid to the sale of products and services. I believe cooperation is essential for maximum long-term participation in socialist markets.

There are a number of reasons for this, including the difficulty and high cost to influence or determine the needs of individual users because of limited access to them and the extensive plans of the U.S.S.R. and Eastern Europe to manufacture computer equipment.

Also, it is our view that Control Data can better access markets in developing countries through cooperative arrangements with socialist countries. Over two-thirds of the world's population is in developing countries. Unfortunately, many of these people often prefer to do business with the socialist countries. This is a fact of life which it would be foolhardy to ignore in longer term plans for growth in international markets.

Basic to our concept of cooperation in computer technology is that the easy things have been done in the computer field. It is much simpler to develop computers than to apply them effectively.

Computer hardware has reached the stage of development where it is quite adequate for more applications—the pacing element now is applications software. The U.S.S.R. and East Europe can make substantial contributions to the applications of computers through joint programs. I will provide an example later.

Also basic to our concept of cooperation is our policy that Control Data does not normally sell technology for cash, but will only offer technology where improved access to the market is realized or technology of equivalent or greater value is received, or some combination thereof. In such cooperation, it is our preferred position to seek an ongoing relationship through active management participation, as opposed to a one-time project. By this arrangement, we expect to be in a position to assure satisfactory implementation from the viewpoint of both parties.

Program phasing is a key ingredient in technology interchange. By that I mean the transfer of Control Data technology will be related to the flow-back of technology to Control Data. This approach contemplates a series of bilateral milestones. These milestones, is not met, will cause an adjustment to the schedule in order to assure the desired reciprocal benefits are attained by both sides.

The major technologies which Control Data wants from the Soviet Union are in the application of computers in education and health care. It is our belief that a large scale, computer based education project by the U.S.S.R. and a similar one in the health care field, or some combination, could provide technology of a value greater than that which we will be furnishing the U.S.S.R.

Let us take for example our proposed interchange of technology in education. Because of the highly decentralized nature of education in the United States and the diversity of views, there is no authority which is going to bring about large-scale use of computer-based techniques for many years.

However, in contrast:

The control of education in the U.S.S.R. is highly centralized;

The U.S.S.R. has the same fundamental objective of education as the United States, that is, the highest quality for the greatest number of people;

The Soviet Union offers education to its people in over 120 languages, which provides even greater incentive than in the United States for means to increase productivity in the educational process;

There is available a large number of basic scientists for programing computers and developing courseware;

There is a huge requirement that brings necessary production volume to reduce costs; and finally

The sooner large-scale usage of a computer-based education system can be achieved, the faster the system will be refined, and costs reduced to the benefit of both the United States and U.S.S.R. and all other countries as well.

Let me turn now to the specifics of the legislation under consideration.

A major problem with current export legislation lies in its implementation. For example, the current law provides for the establishment of technical advisory committees which could provide a much needed government-industry interface. To date, these committees have been misused or not used at all, as follows:

Under the law, the Secretary of Commerce is required to undertake, in cooperation with appropriate technical advisory committees, an investigation to determine which commodities and technical data should no longer be subject to export controls for national security reasons.

If such an investigation has been conducted, it has not been accomplished with the assistance of the Technical Advisory Committee for Computer Systems.

Although U.S. industry has provided people to man the computer systems committee, they are not permitted to represent the industry or the company that furnishes them. Committee members are instructed by Government that they serve as individuals, and not as industry representatives, and that they may not discuss committee matters with their parent companies.

Although the technical advisory committees were intended to advise and assist the Secretary of Commerce with respect to actions designed to carry out the policy concerning export administration, the activities of the committees have been restricted to providing "technical" advice in the strictest sense of the word.

I would recommend in the extension of this act that language be adopted that would strengthen the role of the technical advisory committees to insure that they participate in the formulation of export policy. This would enable industry to better understand national security considerations which often stand in the way of exports, and at the same time would provide a wealth of expertise to the Government which is not now utilized.

Beyond the issue of the technical advisory committees, the Office of Export Administration is seriously undermanned in terms of numbers of people and in technical competence to process export license appli-

cations expeditiously. In many instances, export licenses take months to process.

With respect to the legislation pertaining to the Export-Import Bank Act of 1945, as amended, I fully support the 4-year extension of the period within which the Bank will function, and the increase of the Banks loans, guarantee and insurance authority, and the need to operate with the requisite degree of autonomy to effectively carry out its functions.

Eximbank guarantee programs provide the lifeblood of many U.S. corporations doing business worldwide, including the Socialist countries. The extension of credits and loan guarantees is the very essence of international trade. In the case of Control Data, for example, Eximbank financing is absolutely essential to its export business.

Local financing is not always obtainable. Moreover, it is usually at rates and conditions that render the U.S. company noncompetitive versus foreign manufacturers who are enjoying the benefits of export incentive programs.

In the sale or lease of large computer systems, interest cost is a critical factor in maintaining a competitive position. A substantial portion of our exports is leased because leasing is a feature of the computer industry.

The leased portion creates a disproportionate need for cash which has to be financed at a competitive interest rate. High interest costs also curtail the marketing flexibility of the seller/lessor since they leave less room for price concessions often needed to compete with a less efficient but cheaper product.

We, therefore, do have a serious need for an assured source of financing at reasonable cost based upon which we can offer our equipment worldwide.

I am aware that the question has been raised whether or not each Eximbank transaction involving a Socialist country should be subject to a separate determination on the part of the President and a subsequent report to the Congress within 30 days of that determination. I urge that, if the Presidential authority is not clear in this context, the Eximbank Act be amended to permit the President to make a blanket authorization in this regard, subject to whatever congressional review procedures that might be reasonable.

I would like to summarize my remarks by emphasizing the following:

Future computer technological challenges are mainly in the development of software, particularly applications software.

It is clear that we as a manufacturer must play an active role in this area of applications software development. Many areas of computer applications will at best be seriously delayed unless the high cost of developing the programs can be spread.

Areas such as education and medical health are beyond the capabilities of one country, let alone one company, to develop because of the nature and magnitude of the resources required. In Control Data we are addressing this problem by seeking cooperative ventures involving technology interchange and we believe the U.S.S.R. can contribute significantly.

We also believe that a worthwhile market opportunity for computer products remains in the U.S.S.R. and East Europe, even though the the computer systems segment potential is greatly diminished.

U.S. industry needs more help to avoid the loss of these trade opportunities to the benefit of foreign competitors and to avoid the associated negative effect on the U.S. balance of trade.

The realization of the remaining market potential and significant benefits from scientific and technological cooperation will require change and more flexibility by both Government and industry. I would like to make a plea for closer communication and cooperation between industry and the agencies concerned with export activities.

Issues pertaining to technology interchange should be addressed now in greater depth by Government and industry, and resolved in a timely manner. We believe that the concept of technology interchange as I have discussed it can serve as a model for worldwide cooperation in many disciplines. Control Data is prepared to work closely with all Government departments to further this concept.

Therefore, we urge the Congress to foster technological interchange, to take action to improve administrative procedures surrounding exports, and to reject amendments to existing legislation which would prohibit extensions of credits and guarantees for overseas sales.

Thank you.

[Mr. Norris' prepared statement follows:]

PREPARED STATEMENT OF WILLIAM C. NORRIS, EXECUTIVE OFFICER, CONTROL DATA CORPORATION

Mr. Chairman, I am William C. Norris, Chairman of the Board and Chief Executive Officer of Control Data Corporation. I am pleased at the opportunity to appear before this Committee to express my views concerning pending legislation which would renew and amend the Export Administration Act of 1969 and the Export-Import Bank Act of 1945. At the same time I would like to comment on relevant aspects of Control Data's program of technological interchange with the USSR.

Control Data Corporation is a major manufacturer of computers and related computer peripheral equipment not only for our own systems needs, but for other computer manufacturers in the United States and abroad. In 1973, our computer operations produced revenues of $948 million. Of this, $330 million was overseas business.

We operate in 31 countries, worldwide. In the years 1971, 1972 and 1973 Control Data's overseas sales were $204 million, $270 million and $330 million respectively. This high rate of growth in Control Data's overseas sales in characteristic of the growth rate achieved by the entire U.S. based computer industry over the same period. Statistics published by the U.S. Department of Commerce indicate that the U.S. computer alone contributed to the favorable U.S. balance of trade by $1.5 billion in 1973. We need only to compare this balance with the overall U.S. trade surplus of $1.76 billion to appreciate its significance.

With these figures in mind, it would be well to pause and reflect on the consistent growth rate in overseas sales which has been experienced by the computer industry, not only in terms of the environment which made it possible, but in terms for the potential for stunting this growth through tampering with that environment.

I conclude that since 1945 the restrictive nature of export legislation and the lengthy administrative procedures surrounding export licenses for computers have served the United States poorly. We have violated a cardinal rule by being "difficult to do business with." There can be little doubt that this was our intent. Now let us examine the consequences. The COMECON nations, under USSR leadership, have cooperatively launched an effort to develop their own computer

industry based upon a family of machines popularly called the Ryad Series. Although there has been speculation in recent years over their progress, it now is evident that the program is largely under control. Although probably behind schedule somewhat, computers are being delivered now. At least one model, the 1040, an intermediate scale system is being prepared by East Germany for export markets. Potential Control Data customers throughout Eastern Europe are being directed to use Ryad equipment rather than the computers of U.S. or West European manufacturers.

Earlier attention to the developing plans of the COMECON nations might have given to the United States insight leading to policies and regulations that would have permitted us a larger share of the USSR/East European computer market that now appears destined to gravitate to their own Ryad computers. The market divides between computers and computer peripheral equipment. There is still an opportunity for computer peripheral sales. However, if we do not adjust U.S. and COCOM controls to permit U.S. manufacturers the opportunity to satisfy the requirement for peripheral products on the Ryad Series, we will provide to the COMECON countries the incentive to spawn their own computer peripheral industry as they have spawned a computed industry, or obtain what they need from other countries.

Turning back to my original statements referring to the growth of the computer industry, we should realize that in spite of phenomenal growth in the past we are today approaching a period where previous rates of market expansion will not longer be enjoyed unless we find new markets. This is brought about by a constantly diminishing technology gap. Western Europe and Japan are rapidly approaching, and in some cases have achieved, a technological parity with the United States. Further, I note:

(1) The Ryad computer program is progressing;

(2) Peripheral equipment technology now available in Eastern Europe is only three to four years behind the U.S., and;

(3) There is no evidence that I know of that the USSR has been unable to carry out any important military project for lack of computer technology.

I conclude that, to avail ourselves of the dwindling opportunities, it is essential to move rapidly into the USSR and East European marketplace which hold significant potential over the next ten years. Otherwise, our foreign competition and the indigenous industry that I referred to will preempt the opportunity.

At this point, I will outline Control Data's philosophy on doing business with the USSR and Eastern Europe including our policy on technology interchange.

Control Data supports the June 1972 summit agreement on scientific and technological cooperation and the other signed cooperative agreements between the U.S. and USSR in the fields of transportation, atomic energy, space, medical, science, environmental protection and the world ocean.

We believe that the U.S. should rapidly and aggressively pursue cooperative programs with the USSR as well as other countries. Otherwise, we will deny ourselves the opportunity to add significantly to the timeliness and adequacy of solutions to many long-term problems, including energy, environmental protection, transportation, education and health care.

It is becoming increasingly clear that the U.S. by itself does not have the resources to adequately solve long-term energy and environmental problems, but must seek the involvement of other nations.

Present sources of funds in the U.S. are strained to merely support the present inadequate educational system and a large investment in research and development will be required to bring about major improvement. How does the U.S. pay for the urgent need for better medical care? Technological development could provide it—if there were additional resources to commit to it. Cooperative efforts with the USSR could provide more effective and less costly solutions much sooner.

In this area I am pleased to say some significant progress has been made already in cooperative efforts in the field of medical health with the USSR under the government agreements.

Because of some of the characteristics of the USSR and its population there are certain studies that can be carried on in the USSR that would not be possible in the United States. An example is in their study of cancer of the esophagus. This disease occurs at an extremely high rate in the area surrounding the Caspian Sea. This phenomenon does not occur elsewhere in the USSR or in the United States.

Another factor is that the USSR has a highly structured system for health care, while in the United States our system is highly decentralized. They are making a tremendous effort to determine the status of the health of their citizens as well as the health care they receive. During the last census, Soviets were expected to fill out a detailed health questionnaire. Approximately one million people were then selected for a physical examination to determine the correlation between the census reports and their actual state of health. In addition, approximately 50,000 Soviets were given a detailed clinical examination to further determine the correlation.

This type of sweeping systems approach is possible in the USSR in the field of education as well.

It makes the USSR an extremely attractive partner for cooperative activities in health and education, since they have the structure to implement pilot procedures of a substantial scale which we believe are a necessary ingredient to major progress in applying computer technology to these fields.

A significant Soviet resource potential in many cooperative endeavors is the huge reservoir of research personnel. It is important to keep in mind that Russia has more basic scientists than any other country. In the U.S. most of our technical talent resides in applied scientists and engineers as opposed to Russia where many of the better ones have gone into the pure science fields of physics, mathematics, chemistry, etc. There is a basis for a natural marriage on projects with the USSR concentrating more on the production of basic knowledge and U.S. engineers applying the technology to the solution of problems.

Another benefit of cooperation, for Control Data at least, is the aid to the sale of products and services. In addition I believe cooperation is essential for maximum long-term participation in socialist markets. There are a number of reasons for this including the difficulty and high cost to influence or determine the needs of individual users because of limited access to them and the extensive plans of the USSR and Eastern Europe to manufacture computer equipment.

Also it is our view that Control Data can better access markets in developing countries through cooperative arrangements with socialist countries. Over two-thirds of the world's population is in developing countries. Unfortunately many of these people often prefer to do business with the socialist countries rather than with the West. This is a fact of life which it would be foolhardy to ignore in longer term plans for growth in international markets.

Basic to our concept of cooperation in computer technology is that the easy things have been done in the computer field. It is much simpler to develop computers than to apply them effectively. Computer hardware has reached the stage of development where it is quite adequate for most applications—the pacing element now is applications software. The USSR and East Europe can make substantial contributions to the applications of computers through joint programs. I will provide an example later.

Also basic to our concept of cooperation is our policy that Control Data does not normally sell technology for cash but will only offer technology where improved access to the market is realized or technology of equivalent or greater value is received, or some combination thereof. The only exceptions are occasional special cases such as in peripheral product sales under long-term contracts where the buyer needs a license for source protection.

In such cooperation it is our preferred position to seek an on-going relationship through active management participation, as opposed to a one-time project. By this arrangement we expect to be in a position to assure satisfactory implementation from the viewpoint of both parties.

Program phasing is a key ingredient in technology interchange. By that I mean the transfer of Control Data technology will be related to the flow-back of technology to Control Data. This approach contemplates a series of bilateral milestones. These milestones if not met will cause an adjustment to the schedule in order to assure the desired reciprocal benefits are attained by both sides.

The major technologies which Control Data wants from the Soviet Union are in the application of computers in education and health care. As I will mention later, it is our belief that a large-scale, computer based education project by the USSR and a similar one in the health care field, or some combination, could easily provide technology of a value greater than that which we will be furnishing the USSR. Let us take for example our proposed interchange of technology in education. Because of the highly decentralized nature of education in the U.S. and the diversity of views, there is no authority which is going to bring about

large-scale use of computer based techniques for many years in this country. However, in contrast:

(1) The control of education in the USSR is highly centralized;

(2) The USSR has the same fundamental objective of education as the U.S., i.e., the highest quality for the greatest number of people;

(3) The Soviet Union offers education to its people in over 120 languages which provides even greater incentive than in the U.S. for means to increase productivity in the educational process;

(4) Availability of large numbers of basic scientists for programming computers and developing courseware;

(5) Huge requirement brings necessary production volume to reduce costs, and finally;

(6) The sooner large-scale usage of a computer based education system can be achieved, the faster the system will be refined, and costs reduced to the benefit of both the U.S. and USSR and all other countries as well.

Let me turn now to the specifics of the legislation under consideration.

A major problem with current export legislation lies in its implementation. For example, the current law provides for the establishment of Technical Advisory Committees which could provide a much needed government/industry interface. To date, these committees have been misused, or not used at all, as follows:

Under the law, the Secretary of Commerce is required to undertake, in cooperation with appropriate Technical Advisory Committees, an investigation to determine which commodities and technical data should no longer be subject to export control sfor national security reasons.

"If such an investigation has been conducted, it has not been accomplished with the assistance of the Technical Advisory Committee for Computer Systems.

Although U.S. industry has provided people to man the computer systems committee, they are not permitted to represent the industry or the company that furnishes them. Committee members are instructed by government that they serve as individuals, and not as industry representatives and that they may not discuss committee matters with their parent companies.

Although the Technical Advisory Committees were intended to advise and assist the Secretary of Commerce with respect to actions designed to carry out the policy concerning export administration, the activities of the committees have been restricted to providing 'technical' advice in the strictest sense of the word. Policy considerations have been barred from committee consideration.

I would recommend in the extension of this Act that language be adopted that would strengthen the role of the Technical Advisory Committees to ensure that they participate in the formulation of export policy. This would enable industry to better understand national security considerations which often stand in the way of exports, and at the same time would provide a wealth of expertise to the government which is not now utilized.

Beyond the issue of the Technical Advisory Committees, the Office of Export Administration [OEA] is seriously undermanned in terms of numbers of people and in technical competence to process export license applications expeditiously. In many instances, export licenses take months to process, and companies are often required to submit detailed responses to questions repeatedly throughout the lengthy process.

With reference to that portion of H.R. 13838 which would intitute new reporting requirements, I feel that this is not a legislative necessity. Since we have routinely reported our protocols and agreements, we do not oppose the idea of reporting, in itself. It is possible that such reporting could be useful to us in that governmental guidance and counselling might be realized in this manner. However, the fifteen-day reporting time is entirely unrealistic. If a time limitation must be placed on this type of reporting, it is suggested that a minimum of sixty days be adopted. Moreover, we would recommend that first priority be given to reducing present restrictions and providing a staffing level adequate to meet today's needs, rather than the adoption of increased reporting requirements.

With respect to the legislation pertaining to the Export-Import Bank Act of 1945, as amended, I fully support the four-year extension of the period within which the Bank will function, and the increase of the Bank's loans, guarantee and insurance authority and the need to operate with the requisite degree of automony to effectively carry out its functions.

EXIM guarantee programs provide the life-blood of many U.S. corporations doing business worldwide, including the socialist countries. The extension of credits and loan guarantees is the very essence of international trade. In the case of Control Data, for example, EXIM Bank financing is absolutely essential to its export business. Local financing is not always obtainable. Moreover, it is usually at rates and conditions that render the U.S. company non-competitive versus foreign manufacturers who are enjoying the benefits of export incentive programs. In the sale or lease of large computer systems, interest cost is a critical factor in maintaining a competitive position. A substantial portion of our exports is leased because leasing is a feature of the computer industry. The leased portion creates a disproportionate need for cash which has to be financed at a competitive interest rate. High interest costs also curtail the marketing flexibility of the seller/lessor since they leave less room for price concessions often needed to compete with less efficient but cheaper product. We, therefore, do have a less efficient but cheaper product. We, therefore, do have a serious need for an assured source of financing at reasonable cost based upon which we can offer our equipment worldwide.

I am aware that the question has been raised whether or not each EXIM Bank transaction involving a socialist country should be subject to a separate determination on the part of the President and a subsequent report to the Congress within thirty days of that determination. I urge that, if the Presidential authority is not clear in this context, the EXIM Bank Act be amended to permit the President to make a blanket authorization in this regard, subject to whatever Congressional review procedures that might be reasonable.

I would like to summarize my remarks by emphasizing the following:

Future computer technological challenges are mainly in the development of software, particularly applications software.

It is clear that we as a manufacturer must play an active role in this area of application software development. Many areas of computer application will at best be seriously delayed unless the high cost of developing the programs can be spread. Areas such as education and medical health are beyond the capabilities of one country, let alone one company, to develop because of the nature and magnitude of the resources required. In Control Data we are addressing this problem by seeking cooperative ventures involving technology interchange and we believe the USSR can contribute significantly.

We also believe that a worthwhile market opportunity for computer products remains in the USSR and East Europe even though the computer systems segment potential is greatly diminished.

U.S. industry needs more help to avoid the loss of these trade opoprtunities to the benefit of foreign competitors and to avoid the associated negative effect on the United States balance of trade.

The realization of the remaining market potential and significant benefits from scientific and technological cooperation will require change and more flexibility by both government and industry. And, I would like to make a plea for closer communication and cooperation between industry and the agencies concerned with export activities.

Issues pertaining to technology interchange should be addressed now in greater depth by government and industry and resolved in a timely manner. We believe that the concept of technology interchange as I have discussed it can serve as a model for worldwide cooperation in many disciplines. Control Data is prepared to work closely with all government departments to further this concept.

Therefore, we urge the Congress to foster technology interchange, to take action to improve administrative procedures surrounding exports, and to reject amendments to existing legislation which would prohibit extensions of credits and guarantees for overseas sales.

Mr. ASHLEY. Thank you. Mr. Norris.

We will next hear from Ralph E. Cross, president of the Cross Co., to speak on behalf of the National Machine Tool Builders Association. I understand that Mr. Cross' statement will be augmented by some comments from James A. Gray, executive vice president of the association.

STATEMENT OF RALPH E. CROSS, PRESIDENT, CROSS CO., FIRST VICE PRESIDENT, NATIONAL MACHINE TOOL BUILDERS ASSOCIATION; ACCOMPANIED BY JAMES A. GRAY, EXECUTIVE VICE PRESIDENT

Mr. Cross. Mr. Chairman, members of the subcommittee, I am Ralph E. Cross, president of the Cross Co., of Fraser, Mich., and first vice president of the National Machine Tool Builders Association, on whose behalf I am testifying today. Accompanying me is James A. Gray, executive vice president of NMTBA, who will comment on some of the association's export promotion activities.

For the record, I would like to say that machine tools are the machines that cut, bend, and form metal to produce other industrial equipment and consumer goods. They range from simple drilling machines to highly sophisticated computer-aided manufacturing systems.

We are appearing here today to express the support for H.R. 13838, legislation to extend and expand the Export-Import Bank Act, and H.R. 13840, providing for extension of the Export Administration Act.

First, with respect to the export-import legislation, NMBTA has consistently supported the activities of the Eximbank, because the Bank has been helpful in maintaining our share of the world market for machine tools. As you may or may not know, the American share of the market for machine tools has been declining in recent years. Between 1967 and 1972, total shipments by U.S. builders dropped by 40 percent, from a level of $1.8 billion in 1967 to $1 billion in 1972. During this same period, total world consumption of machine tools was rapidly increasing, with non-U.S. consumption rising from $4.3 billion in 1967 to nearly $9 billion in 1973.

There were several causes for the decline in U.S. shipments relative to world machine tool consumption. One was noncompetitive prices due to greater U.S. labor and material costs and international currency misalinement. Second was the administration of the export control regulations, which excluded American machine tool builders from the markets of Eastern countries. A third important factor was the unavailability of competitive financing for export transactions.

In the last couple of years, there has been a significant improvement on the export front. U.S. builders still face serious competition from foreign builders. However, currency realinement has once again made us price competitive, and Eximbank has developed financing programs that put us on a more equal footing with our foreign competitors. In addition, export controls have been relaxed to a large degree, so we can now sell many types of machine tools to the Eastern countries. These developments have contributed importantly to the current high level of machine tool export orders.

NMTBA members have enjoyed the cooperation and assistance of Eximbank in numerous projects and programs, as detailed in our written testimony. Thus, we wholeheartedly support the legislation before this subcommittee to extend the life of Eximbank for 4 years, to increase its authorized ceiling for guarantees, insurance, coinsur-

ance, and reinsurance, and to authorize an increase in its aggregate amount of outstanding loans, guarantees, and insurance.

However, I am obliged to state we are opposed to proposals that would condition the availability of Eximbank financing on a country's emigration policy. We believe that any legislation that makes export financing contingent upon changes in the foreign government's domestic policy is the wrong way to proceed. In imposing obstacles to increased East-West trade, we not only deny ourselves important economic benefits, but we forgo opportunities to promote a broader exchange between East and West, a broader exchange in which may lie our most promising hope for continued world peace.

As a second matter, we would like to express support, with certain reservations, for the administration's proposal to extend the authority to administer controls on U.S. exports. We have often been critical of both the policies and the administration of our export control program, and we continue to view controls with some wariness.

Clearly, there are circumstances where the export of certain U.S. origin commodities and technical data can raise legitimate national security and foreign policy concerns. Nevertheless, it is my personal judgment which is not necessarily the opinion of our association that the export control of machine tools has not been in the national ininterest for two reasons: First, export controls have made the Eastern bloc self-sufficient in many types of machine tools, particularly those needed for their military production. Second, export controls have strengthened foreign producers of machine tools at the expense of American producers.

It is for these reasons that we hope that the control of machine tool exports will be reduced to the maximum extent possible. In particular, we would like to be sure that the law or the administration of the law does not give any competitive advantage to foreign producers.

There is one provision of the bill now before this subcommittee whose utility we seriously question. Section 3 would amend the Export Administration Act of 1969 by imposing the following obligation on U.S. exporters, and I will quote from the proposal.

> Any person who enters into a contract, protocol, agreement, or other written understanding which contemplates, or is likely to result in, the exportation by a U.S. person or one of its affiliates to a Communist country or area of U.S. origin technical data which is not generally available, shall report the details of the transaction to the Secretary of Commerce and provide him with copies of documents pertaining to such transaction within 15 days from entering into such contract, protocol, agreement, or other written understanding.

We fail to see the justification for such an obligation, in view of the fact that the export of almost all types of technical data to Communist countries is currently subject to validated license requirements under the export control regulations, and in this area vigilance over the export of technical data may properly be maintained in the licensing process. It seems to us that section 3 would merely place an additional and redundant administrative burden on U.S. exporters over and above the present considerable ones involved in processing an export license application, and it would achieve no necessary governmental objective.

At this time, I would like to turn this over to Mr. Gray, who will tell you what our association has done in promoting exports in the last several years.

Mr. GRAY. Mr. Chairman, Mr. Cross has stated the position of the NMTBA on bills pending before this subcommittee, and I would like to supplement his remarks by discussing with you the activities of the association in the international trade field, and in particular to discuss briefly the recent "STANKI—USA '74" machine tool show held in Moscow.

Our international trade activities began back in 1967 when our association decided to launch an export expansion program with the appointment of an export committee. This committee was made up of the most experienced overseas marketing people in our industry, men who were dedicated to the concept that American companies could compete in world markets, and that, indeed, the future of the American machine tool industry depended upon continuous international involvement, not just the on-again off-again sort of a "when you need the business" attitude. We then went about developing our international trade program.

As a result, the present international trade activities of the NMTBA can be summarized under the following major headings: First, the NMTBA international trade publications. We conducted a number of marketing surveys on the major export markets for machine tools, and they are published on an annual basis. We developed directories of foreign machine tool distribution networks, distributors. We distributed thousands of machine tool directories of the products manufactured by our members.

Second, we conducted trade missions to foreign countries. In 1971, we conducted two trade missions to the Soviet Union. Both of these were highly successful and resulted in substantial orders for American companies. In addition, we conducted basic market investigations; we took missions to Poland, Brazil, and Venezuela in 1972, and to Rumania, Czechoslovakia, Bulgaria, and Brazil last year.

So far this year, we have conducted trade missions to Iran and Israel, and soon we will be going to South Africa and East Germany. Later this year, we will take trade missions to several Asian countries, hopefully, the People's Republic of China. All of these trade missions have been industry-organized, Government-approved trade missions, and we have worked closely with the Department of Commerce, and our success is in large measure due to their help and guidance.

Third, we cooperated with the visiting foreign trade delegations. Because of the rapport that we have developed with these countries, NMTBA frequently acts as a host for trade delegations that come from other countries.

Fourth, participation and sponsoring of international machine tool shows. At least once each year, there is an international machine tool show somewhere in the world. Last September, the show was held in Hanover, Germany. Next September, the international machine tool show, sponsored biennially by NMTBA, will be held in Chicago.

I would like now to briefly discuss our most recent international trade activity. From April 9 through April 19, NMTBA and its members participated in the "STANKI—USA '74" machine tool show which was held in Moscow. I have just returned from the show, and I would like to mention some details of what transpired.

Some 83 American companies participated in the exhibition. The exhibit area covered over 50,000 square feet and was the largest commercial exhibit ever sponsored by the U.S. Department of Commerce. It was also the first solo commercial exhibit sponsored by the U.S. Government in the U.S.S.R. with no other countries participating.

I am pleased to report that "STANKI—USA '74" was a resounding success. There were some 250,000 visitors at the show. Every East European country had delegations or representatives there. These were the key officials of the East European countries and the purchasing officers of these countries.

Although precise sales figures are not available, it appears that the Soviets purchased between $5 and $6 million in equipment during the show. U.S. exhibitors expect to see about $90 million in follow-on business within 1 year, and an increasing amount for the next 2 to 4 years.

This assumes, of course, a realistic export control policy on the part of our Government, continuation of the availability of present Eximbank financing, and that the U.S.S.R. and other East European countries receive equal tariff treatment for their imports into the United States to enable them to compete on an equal footing with West European countries and Japan.

We certainly agree with the remarks made by Secretary Dent when he opened the Moscow show. The Secretary stressed reciprocity in trade and the wide expansion of commercial and industrial relations.

As a sponsor of the largest industrial show held in the United States, I believe we are in a unique position to judge the promotion and handling of the STANKI show, including the many details and arrangements which of necessity must be made. These are difficult in the United States. In the U.S.S.R., you have the added problem of language, as well as many unanticipated conditions.

Without reservation, I am pleased to say that the U.S. exhibitors, our machine tool company members, were proud of the efforts made on their behalf by the Department of Commerce representatives. Undoubtedly this contributed to the almost unbelievable number in attendance, as I indicated, a quarter of a million people.

The work that was done ahead of time by NMTBA on this show allowed customers to anticipate the types and kinds of machine tools to be exhibited, and they thus were in a position to make a quick decision on whether to buy. Practically every machine tool exhibited in the show was sold on the spot. Furthermore, many pending agreements were also completed by the companies exhibiting.

The Department of Commerce, and especially the Office of East-West Trade Developments, deserves our thanks and praise for their excellent efforts on behalf of the U.S. machine tool industry. There should be more of this cooperation between the U.S. Government and U.S. industry. We should let the world know that we are very serious about remaining in the international trade arena and competing vigorously.

In closing, I would like to say that I have been in enough East European plants and factories to know that if the United States has unreasonable export regulations or fails to grant the necessary credits,

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the business will go elsewhere, to our foreign competitors. This will enable our competitors to plow back the profits generated by this business into research and development, undoubtedly eliminating the slender technological lead now enjoyed by the U.S. machine tool industry.

Second, such a refusal on our part also will have the effect of fostering the development and technology in the East European countries of the very machines we would otherwise sell to them.

Thank you very much for the opportunity to review with you the activities of the NMTBA in the international trade field and also our participation in "STANKI—USA '74."

[The prepared statements of Mr. Cross and Mr. Gray on behalf of the National Machine Tool Builders Association follows:]

PREPARED STATEMENT OF RALPH E. CROSS, PRESIDENT OF THE CROSS COMPANY AND FIRST VICE PRESIDENT OF THE NATIONAL MACHINE TOOL BUILDERS ASSOCIATION

Mr. Chairman, Members of the Committee, I am Ralph E. Cross, President of the Cross Company of Fraser, Michigan, and First Vice President of the National Machine Tool Builders Association (NMTBA), on whose behalf I am testifying today. Accompanying me is Mr. James A. Gray, Executive Vice President of NMTBA, who will comment on some of the Association's export promotion activities.

NMTBA has had the privilege to testify before this Subcommittee on foreign trade matters in the past, but for the record I would like briefly to describe the organization. NMTBA is a trade association representing 300 companies that manufacture machine tools in the United States and, in some cases, abroad. Our membership operates manufacturing facilities in 27 states, provides employment for more than 90,000 persons, and accounts for more than 90% of U.S. production of machine tools. Machine tools are vital to every industrialized economy. They are the devices that cut, bend and form metal, including metal used in the manufacture of machinery to produce other industrial equipment and consumer goods. They can range from single drilling machines to highly sophisticated numerically controlled multi-function devices.

I am appearing here today to express the support of NMTBA for H.R. 13838, legislation to extend and expand the Export-Import Bank Act of 1945, and H.R. 13840, providing an extension of the Export Administration Act of 1969.

I.

First, with respect to the Export-Import legislation, NMTBA has consistently supported the activities of the Eximbank. After World War II, U.S. industry, including the machine tool industry, was instrumental in assisting the economic recovery of Europe and Japan and, until the mid-1960's, possessed broad technological superiority over foreign competitors. By the end of the decade of the 1960's, however, U.S. machine tool builders faced significant competitive pressure from foreign machine tool producers, who were now enjoying the benefits of full economic recovery in their home countries. Between 1967 and 1972 total machine tool shipments by U.S. builders dropped by 40%, from a level of $1.8 billion in 1967 to $1 billion in 1972. During this same period total world consumption of machine tools was rapidly increasing, with non-U.S. consumption rising from $4.3 billion in 1967 to $7.3 billion in 1972 and nearly $9 billion in 1973.

There were several causes of the decline in U.S. shipments relative to world machine tool consumption. One was our loss of clear-cut technological superiority. Another was non-competitive prices due to greater U.S. labor and material costs and international currency misalignment. A third important factor was the unavailability of competitive financing for export transactions.

In the last couple of years there has been significant improvement on the export front. U.S. builders still face serious competition from technologically sophisticated foreign builders. However, currency realignment has once again made us price-competitive, and Eximbank has developed financing programs

that put us on a more equal footing with our foreign competitors. These developments have contributed importantly to the current high level of machine tool export orders.

NMTBA members have enjoyed the cooperation and assistance of Eximbank in numerous projects and programs over the past few years. Eximbank has participated in Association seminars and machine tool shows and has developed financing programs that have been particularly advantageous to the machine tool industry. For example, Eximbank's preliminary commitment procedure under which Eximbank provides U.S. exporters with advance assurances as to the nature of financing that their customers can expect in connection with particular export transactions has enabled many members to negotiate export sales with the knowledge that Eximbank financing will be available.

Also, Eximbank's cooperative financing facility under which it extends lines of credit to foreign lending institutions for use in direct financing of export transactions in the countries of importation has proved helpful to many U.S. machine tool builders. Cooperative financing is designed for financing small and medium size transactions—which are what most U.S. machine tool export orders typically are—and enables a purchaser of U.S. goods to obtain, among other things, direct financing from a local lending institution with which he is familiar.

A third helpful Eximbank program is its discount plan. Many U.S. machine tool builders are small and medium size companies accustomed to dealing with banks in their own localities. Under the discount plan, local banks are encouraged to participate in export financing through Eximbank's commitments for discount loans of up to 100% of the principal amount or discounted value of eligible export debt obligations arising out of export transactions.

Thus, we whole-heartedly support the legislation before this Committee to extend the life of Eximbank for four years, to increase its authorized ceiling for guarantees, insurance, coinsurance and reinsurance, and to authorize an increase in its aggregate amount of outstanding loans, guarantees and insurance.

However, I am obliged to comment briefly on proposals being considered in both houses of Congress that would condition the availability of Eximbank financing for sales to a particular foreign country on that country's emigration policies. Speaking both as an individual and on behalf of NMTBA, I fully endorse the efforts of private individuals and organizations, our government and international organizations to encourage a relaxation of Soviet emigration restrictions.

I also believe that any legislation that makes otherwise available export financing contingent upon changes in Soviet domestic policy is the wrong way to proceed. In imposing obstacles to increases East-West trade, we not only deny ourselves important economic benefits but we forego opportunities to promote a broader exchange between East and West—a broader exchange in which may lie our most promising hope of continued world peace.

It has been some years now since we abandoned economic warfare as a general policy in our relations with the Communist world. We should not now resume a policy that could only undermine the relationships that our government has cautiously and carefully nurtured during the past three years.

II.

As a second matter, we would like to express support—with certain reservations—for the Administration's proposal to extend, through fiscal 1977, the authority to administer controls on U.S. exports. We have sometimes been critical of both the policies and the administration of our export control program, and we continue to view controls with some wariness. Clearly there are circumstances where the export of certain U.S.-origin commodities and technical data can raise legitimate national security and foreign policy concerns. But since the U.S. and its Cocom partners no longer possess unchallenged technological superiority over the rest of the world, there are also circumstances where export controls may operate only to restrict a supply of machinery or equipment that Communist countries have developed themselves or can readily obtain from non-Communist sources or that, because of advances in the state of the art, no longer has strategic significance.

On the positive side, I can report that the industry's experience with the Technical Advisory Committee provisions of the Equal Export Opportunity Act of 1972 has been satisfactory. At the request of NMTBA. a Technical Advisory

Committee for Numerically Controlled Machine Tools was authorized in January, 1973. The Committee held meetings in 1973 and early 1974 for the purpose of preparing recommendations to the Office of Export Administration regarding future controls applicable to NC machine tools. The Committee analyzed Cocom definitions, investigated the foreign availability of various types of NC equipment, and examined military versus civil end-uses for such tools. Although the Committee's work is classified, we understand that it is soon to submit a report that will recommend decontrol of various numerically controlled machine tools and clarification of the regulations applicable to still-controlled items.

Unilateral controls on NC equiment have been virtually eliminated. Current U.S. controls are, on their face at least, essentially coextensive with the Cocom list, a circumstance clearly intended by the Equal Export Opportunity Act of 1972. A problem still exists, however, to the extent that our Office of Export Administration interprets the Cocom list more restrictively than counterpart agencies of other Cocom countries.

We do note one provision of the bill now before this Committee whose utility we seriously question. Section 3 would amend the Export Administration Act of 1969 by imposing the following obligation on U.S. exporters:

> "Any person who enters into a contract, protocol, agreement, or other written understanding, which contemplates, or is likely to result in, the exportation by a United States person or one of its affiliates to a Communist country or area, of United States origin technical data which is not generally available, shall report the details of the transaction to the Secretary of Commerce and provide him with copies of documents pertaining to such transaction within fifteen days from entering into such contract, protocol, agreement, or other written understanding."

We fail to see the justification for such an obligation in view of the fact that the export of almost all types of techcnical data to Communist countries is currently subject to validated license requirements under the Export Control Regulations and that necessary vigilance over the export of technical data may properly be maintained in the licensing process. It seems to us that Section 3 would merely place an additional and redundant administrative burden on U.S. exporters, over and above the present considerable ones involved in the processing of an export license application, and that it would achieve no necessary governmental objective.

The Administration has asserted that the purpose of this provision is to establish an "early warning system" for control of inadvertent exports of significant strategic technology. Our own view is that affected U.S. exporters are generally aware of the very broad licensing requirements for technical data and would be unlikely inadvertently to export such data.

Mr. Chairman and Members of this Committee, I appreciate very much this opportunity to share with you NMTBA's views on two items of legislation which you have before you. Thank you for your invitation to appear here today.

PREPARED STATEMENT OF JAMES A. GRAY, EXECUTIVE VICE PRESIDENT OF THE NATIONAL MACHINE TOOL BUILDERS' ASSOCIATION

Mr. Cross has stated the position of the National Machine Tool Builders' Association on bills pending before the Subcommittee. I would like to supplement his remarks by discussing with you the activities of the Association in the International Trade field and in particular, to discuss briefly the recent "STANKI—USA—'74" Machine Tool Show held in Moscow.

Our export program began back in 1967 when our Association decided to launch an export expansion program with the appointment of an export committee. The committee was made up of the most experienced overseas marketing people in our industry—men who were dedicated to the concept that American companies could compete in world markets, and that, indeed, the future of the American industry depended upon continuous international involvement—not just the on again, off again, sort of a "when you need the business" attitude. We then went about developing our international trade program.

As a result, the present international trade activities of the National Machine Tool Builders' Association can be summarized under the following major headings:

A. NMTBA INTERNATIONAL TRADE PUBLICATIONS

1. "Survey of Major Export Markets for Machine Tools"

This publication gives information on the general business climate, a variety of facts about each country, plus data on trade policies, tariff structures and similar items of interest to potential exporters. In addition, it contains historical data on their machine tool imports, including specific information by type of machine tool. The Survey is published in looseleaf form so that individual sections can be updated as information becomes available.

2. "Directory of Foreign Machine Tool Distributors"

This publication lists foreign machine tool distributors and the companies they represent. It is invaluable in setting up an overseas distribution network.

3. "Machine Tool Directory"

This publication which is issued annually has been restructured and has been printed in four languages—English, French, German, and Spanish. It contains a listing of different types of machine tools together with the names of the companies manufacturing them. Distribution is now 45,000 copies per year.

B. TRADE MISSIONS TO FOREIGN COUNTRIES

In 1971 we conducted two trade missions to the Soviet Union. Both of these were highly successful and resulted in substantial orders for American companies. In addition to conducting basic market investigations, we took missions to Poland, Brazil and Venezuela in 1972 and to Romania, Czechoslavakia, Bulgaria and Brazil last year.

Thus far this year, we have conducted trade missions to Iran and Israel. Soon we will be going to South Africa and East Germany. And later this year we will take missions to several Asian countries.

One of the areas of activity that results from our market investigations and trade missions is a steady inflow of inquiries from other nations of the world. We used to handle these when there were only a few on an individual basis with potentially interested members. Then as the number of inquiries grew, we began including them in our regular Association Newsletter.

Now, this year we have instituted a new monthly publication called The International Trade Report. This report includes summaries of each of the many machine tool inquiries received at headquarters each month.

C. COOPERATION WITH VISITING FOREIGN TRADE DELEGATIONS

Just as we take delegations overseas selling machine tools many of the East European countries send delegations to the U.S. for the purpose of investigating machine tool sources of supply. Because of the rapport that we have developed, NMTBA frequently acts as a host for these delegations.

These host activities range all the way from setting up one or two plant visits for a small group of visitors to providing the facilities and coordination for major purchasing visits.

One example of the latter is a recent visit by a Soviet delegation. During this visit in late November and early December, one of our staff directors escorted the Soviet group as they toured several tractor manufacturing plants in the midwest. Then, during the second week of their stay we arranged for more than 20 member companies to come to Washington to discuss technical assignments for a tractor plant. Finally, we arranged additional machine tool plant visits during the third week of their stay.

During the past year, we hosted similar delegations from Poland, Bulgaria, Czechoslovakia and many other countries. In all, we arranged more than 50 plant visits for foreign groups.

D. PARTICIPATION AND SPONSORING OF INTERNATIONAL MACHINE TOOL SHOWS

At least once each year there is an international machine tool show somewhere in the world. Last September, the show was held in Hannover, Germany. Next September, the International Machine Tool Show, sponsored biennially by NMTBA, will be held in Chicago.

NMTBA, as an association, participates in all of the overseas international shows. We operate a booth for the distribution of information about American machine tools and provide every possible assistance to our members who are exhibiting.

Our own international show, held every other year, involves even more activity. Incidentally, our International Machine Tool Show is the largest industrial exhibition held in the United States. It fills the nation's two largest exhibit halls. The products of over 700 exhibitors from 25 nations spread out over 1,000,000 square feet and viewed by an estimated 70,000 visitors.

We anticipate 10,000 visitors from overseas. During their stay, we will provide all necessary assistance in arranging itineraries.

To get this kind of turnout, we make every possible effort to attract visitors. A major world-wide promotional effort has been undeway since last September making use of multi-lingual material.

In addition, we write thousands of personal letters to previous visitors, industrial executives, and U.S. government personnel around the world. Also, we place editorial material in overseas magazines and encourage their editors to visit our show.

To give you some small idea of the effectiveness of these efforts, in 1970, about 30 Brazilian visitors attended our machine tool show. In 1972, through the efforts of the U.S. commercial attache in Rio de Janeiro, 60 Brazilians visited the show and purchased almost $8 million dollars worth of machine tools. As a result of this program's success, this coming September an entire 707 jetliner has been chartered to bring the Brazilian delegation to the show. In addition to conducting an International Machine Tool Show in the Unitel States every two years, we are exploring the possibility of taking a machine tool show overseas in the alternate years.

I would now like to briefly discuss our most recent international trade activity. From April 9 through April 19, NMTBA and its members participated in the "STANKI—USA—'74" machine tool show which was held in Moscow.

I have just returned from this show and would like to mention some details of what transpired.

Some 83 American companies participated in the show. The exhibit area covered over 50,000 square feet and was the largest commercial exhibit ever sponsored by the U.S. Department of Commerce. It was also the first "solo" commercial exhibit sponsored by the U S. Government in the USSR with no other countries participating.

I am pleased to report that the "STANKI—USA—'74" show was a resounding success. There were some 250,000 visitors at the show. Every East European country had delegations or representatives there. These were the key officials of the East European countries—the purchasing officers of their countries.

Although precise sales figures are not available, it appears that the Soviets purchased $5 to $6 million dollars worth in equipment during the show. U.S. exhibitors expect to see about $90,000,000 in follow-on business within one year and an increasing amount for the next two to four years. This assumes, of course, a realistic export control policy on the part of our government, continuation of the availability of present Eximbank financing and that the USSR and other East European countries receive equal tariff treatment for their imports into the United States to enable them to compete on an equal footing with West European countries and Japan.

The exhibit was opened on April 9 by Secretary Dent who cut the ceremonial ribbon. Also in attendance at the opening were Vice Deputy Mikhail R. Kuzmin of the Ministry of Foreign Trade and U.S. Ambassador Walter J. Stoessel, Jr.

We certainly agree with the remarks made by Secretary Dent when he opened the Moscow show. The Secretary stressed reciprocity in trade and the widest expansion of commercial and industrial relations.

In addition to the actual exhibition a seminar program was held on four days—April 15, 16, 17 and 18. Some 24 U.S. company representatives presented technical papers on subjects of interest to the attendees at the show

As a sponsor of the largest industrial show held in the United States, I believe we are in an unique position to judge the promotion and handling of the show, including the many details and arrangements which of necessity must be made. These are difficult in the United States. In the USSR you have the added problem of language as well as many unanticipated problems.

Without reservation, I am pleased to say the United States exhibitors, our machine tool company members, were proud of the efforts made on their behalf by Department of Commerce representatives. Undoubtedly, this contributed to the almost unbelievable number in attendance—as I indicated—250,000 persons.

The work that was done ahead of time by NMTBA on this show allowed customers to anticipate the types and kinds of machine tools to be exhibited and they thus were in a position to make a quick decision on whether to buy. Practically every machine exhibited in the show was sold on the spot! Furthermore, many pending agreements were also completed by the companies exhibiting there.

The Department of Commerce and especially the Office of East-West Trade Developments deserve our thanks and praise for their excellent effort on behalf of the U.S. machine tool industry.

There should be more of this cooperation between the U.S. Government and U.S. Industry. We should let the world know we are very serious about remaining in the international trade arena and in competing vigorously.

In closing, I would just like to say that I have been in enough East European plants and factories to know that if the United States has unreasonable export regulations or fails to grant the necessary credits—the business will go elsewhere—to our foreign competitors. This will enable our competitors to plow back the profits generated by this business into research and development, undoubtedly eliminating the slender technological lead now enjoyed by the U.S. machine tool industry. Secondly, such a refusal on our part also will have the effect of fostering the development and technology in the Fast European countries of the very machines we would otherwise sell to them.

Thank you very much for the opportunity of reviewing with you the activities of the National Machine Tool Builders' Association in the international trade field including our participation in "STANKI—USA—'74".

Mr. Ashley. Thank you, Mr. Gray.

We have two witnesses remaining who will focus on a separate concern. First, Richard B. Scudder, chairman of the board of the Garden State Paper Co., Newark, N.J.

STATEMENT OF RICHARD B. SCUDDER, CHAIRMAN OF THE BOARD, GARDEN STATE PAPER CO., NEWARK, N.J.

Mr. Scudder. Mr. Chairman and members of the subcommittee, I appreciate the opportunity to appear before you to give testimony on the need to extend the life of the Export Administration Act beyond its expiration date of June 30, 1974. My testimony also discusses an apparent need by the Department of Commerce for a clarification of congressional intent in respect to the Department's interpretation and application of the act's criteria to industry requests for export controls on short supply commodities.

My company recycles used newspapers for the manufacture of fresh newsprint. The newsprint mills are located in Garfield, N.J., Pomona, Calif., and Alsip, Ill., the latter mill being a joint venture of Garden State and Field Enterprises. These three mills supply approximately 360,000 tons of newsprint annually to more than 200 newspapers in the East, on the west coast, and in the Middle West.

During the past year, the mills have experienced production slowdowns and shutdowns and huge losses of paper stock inventories because of extreme difficulty in obtaining used newspapers. This situation is directly attributable to excessive exports of used newspapers to foreign destinations, particularly the Far East. Not only has this had an adverse effect upon Garden State, but other consumers of used newspapers, such as board mills, have also had to shut down machines at times and have curtailed production.

A few statistics will serve to illustrate the impact of these exports upon domestic industry. In 1973, exports of used newspaper from west coast ports averaged 12,490 tons per month. This was one-third of the total supply of used newspapers on the west coast. It was an increase from the 1972 average of 4,032 tons per month.

This trebling of used newspaper exports in a 1-year period is also reflected in the skyrocketing price of this commodity. The Bureau of Labor Statistics, BLS, reports that the Wholesale Price Index on used newspapers rose from 101.6 in May 1973 to 291.1 in February 1974. This is an increase of 186 percent in the 9-month period from May 1973 to February 1974. Price increases in the five BLS markets range from $16.50 or 94.3 percent in Los Angeles to $42 or 233 percent in Chicago and Philadelphia.

The only reliable survey of future trends in Asian demand is by McKinsey & Co.'s Tokyo office. This study predicts that exports of used newspapers to Asia will reach 26.000 tons a month by 1975. This would preempt two-thirds of all available waste newspapers on the west coast.

Indeed, Census Bureau figures show further dramatic export increases in 1974. Export of all waste paper, as distinguished from waste newspapers, for which figures are not yet available, rose to 90,000 tons in January compared to an average monthly figure of 50,000 tons in 1973 and 34.586 in 1972.

Such figures cannot fail to have a serious inflationary effect. Waste newspapers are selling for $115 to $120 a ton in Korea and Japan. If American users were to pay such prices, they would need to increase the price of their finished goods by at least $50 a ton. Newsprint, for example, sells for $213.50 in this country. In most foreign areas, the price now exceeds $300. In London, as a result, the entire newspaper publishing industry is in desperate straits. Such a development here could have the most serious sort of economic and sociopolitical results.

There is obviously a direct correlation between the increase in the exports of waste newspapers and the increase in the domestic price of this commodity. There can be no question about the inflationary impact of the excessive drain of this scarce material into the export market.

Because of the seriousness of this situation, which is expected to continue in the foreseeable future, a petition has been filed with the Secretary of Commerce requesting that export licensing controls be imposed on waste newspaper exports from the west coast. That request is now pending with the Secretary of Commerce. It is sponsored by American Newspaper Publishers Association, Printing Industries of America, National Paper Box Association, Media General, Inc., Agricultural Publishers Association, International Labor Press, Graphic Arts International Union, United Paperworkers International Union, and Second Class Mail Publications, Inc., and several other papermills.

This petition deals at length with the statistics involved, supplies potentially available, prices and future trends. I would be delighted to make this available to members of the subcommittee or staff. (See page 552.)

With the above as background, I would like to address the question of the extension of the Export Administration Act of 1969 and the

pending bill, H.R. 8547, which would make certain changes in the law.

We will testify before the Senate Committee on Banking, Housing and Urban Affairs that we are in complete agreement with that committee's position and recommendation set forth in Senate Report No. 93–607 on the bill H.R. 8547. Striking the word "abnormal" from section 3(2)(A) of the act removes an unnecessary impediment to the consideration of export control requests. If foreign demand results in an excessive drain of raw materials needed by American domestic industry, it should not be necessary to determine whether this demand is abnormal in order to impose limitations on exports of materials in short supply.

We agree also that export control criteria should continue to require a showing that foreign demand has caused an excessive drain of a scarce material and a serious inflation in the price of the material. The increase in the domestic price of a commodity for which there is a foreign demand is a good indicator of an existing domestic shortage. In other words, domestic shortages in a given commodity will be reflected automatically in the domestic price of that commodity when domestic industry must compete with foreign markets for the available supply.

Mr. Chairman, we believe that the present legislation, if extended, with the deletion of the word "abnormal" in section 3(2)(A), will be adequate to achieve the objectives of the Congress to protect American industry from the harmful effects of unrestricted exports of scarce materials.

However, in the matter of the interpretation and application of the Export Administration Act criteria to specific situations by the Department of Commerce, it appears that the Congress must make a further clarification of congressional intent respecting the administration of the act.

It is apparent that the Department of Commerce construes the authority in the act to be limited, while this subcommittee and the Senate committee feel that the Secretary of Commerce has all the power that is necessary to effectively administer the act in the public interest. We are apprehensive that the policy of the administration which blindly rejects export controls fails to recognize that there need be no conflict between a sound export control policy for this Nation's raw material resources and the administration's export expansion objectives designed to achieve a favorable balance in international payments.

We can limit the export flow of scarce raw materials, maintain production and provide jobs in our plants, and export finished products at a very substantial advantage to our balance of international payments accounts. For example, taking the case of waste newspapers as a basic raw material and recycled newsprint as the finished product: For each ton of used newspaper that goes into the production of newsprint for domestic consumption, there is a savings of $213.50 in the import cost of newsprint from Canada, which is now providing 7 million tons to the United States annually, for a total adverse balance-of-payments effect of more than $1.5 billion. For each ton of newsprint produced from domestic used newspaper, there is an export market price ranging upward of $300 per ton. Compare this to the $50

to $60 per ton which is paid in the export market for U.S. used newspapers. If these exports were reduced, more mills could and would be built in the United States.

The Department tells us that in order for a commodity to qualify for export licensing relief, a showing must be made that the scarcity of the commodity and the inflation in its price must have a pervasive effect upon the entire economy. This, in our judgment, is a fourth test that is being applied to applications for export controls. The Department claims further that had Congress intended that a commodity or industry could qualify on its own merits under the criteria of excessive drain and inflationary impact of foreign demand, it would be so stated in the law.

Officials of the Department have told us that the calamitous shortage of waste newspapers caused by exports from the west coast is only one of scores of similar cases and may by no means be the worst. What are these other cases? What is their cumulative harmful effect on the U.S. economy?

We urge this subcommittee to put an end to a ruinous policy which would denude America of its vital raw material resources through unrestricted exports. We urge that the subcommittee make clear to the administration that each commodity and industry situation which justifies consideration for export control relief be reviewed and decided on its own merits, without further subjecting the matter to the test of pervasiveness upon the national economy as a whole. We urge, therefore, that the subcommittee report and recommendations on this bill make clear that the excessive drain of any scarce material shall be considered injurious to the domestic economy when foreign demand creates a shortage of raw materials necessary for domestic industry and to protect domestic jobs.

Mr. Chairman, I have had an opportunity to review the proposed amendments to the present act which are embodied in H.R. 13840 and S. 3282. I am particularly encouraged, Mr. Chairman, by the statement included in the last sentence of section 1, item (b) of the section-by-section analysis provided by the Secretary of Commerce.

In that statement, the Secretary appears to adopt a "policy of imposing export controls when absolutely necessary to preserve an adequate domestic supply of a particular commodity for U.S. consumers." This is a radical departure from the present rigid practices which require a showing that shortages and inflationary prices resulting from the impact of foreign demand for the commodity had a pervasive effect upon the national economy as a whole. Nevertheless, given the record of the Department in this area, the words "absolutely necessary" could well mean never.

The subcommittee may wish to query the Secretary on this expression of administration policy so that the record will leave no doubt that the Congress intends that export controls be imposed in short supply commodity situations which meet the conditions of scarcity and inflation in price caused by foreign demand, without further sweeping generalizations such as "absolutely necessary."

Regarding the administration's proposed new clause (c) of paragraph 3 of the act, my belief is that in the context of the Export

Administration Act this statement is unnecessary and undesirable. The clause would represent an additional impediment to needed export control relief were it to be invoked in a situation which otherwise meets the conditions and criteria of the act.

Does it mean, for example, that we would not be able to achieve a worthwhile end that is totally within our power to achieve unless we trade something for it. If we wish to limit the export of wastepaper to that not needed at home for production and jobs, would we have to offer something to Korea in exchange?

We are told that in the years ahead we will suffer an adverse balance of trade effect of $20 plus billions for oil, $6 plus billions for metals, and that we will have a substantial adverse balance. Having an adverse balance means simply living beyond our means, like an individual spending $15,000 a year of a $10,000 a year income. It cannot go on forever without undermining our democratic institutions. It must be paid for. It is absurd for an industrial nation to export its raw materials and import finished goods; to export waste newspapers and import newsprint; to export wood and import plywood. When the export of raw materials destroys domestic industry and deprives Americans of jobs, it is doubly absurd. It is the path to economic disaster.

Mr. Chairman, I will be glad to answer any questions which members of the subcommittee may wish to ask.

Mr. FRENZEL [presiding]. Thank you very much for your excellent testimony, Mr. Scudder. I am sure the subcommittee will have questions of you later.

Our final witness this afternoon is Richard M. Cooperman, executive director of the Aluminum Recycling Association in Washington, D.C. He is accompanied today by Milton J. Amdur, president of the U.S. Aluminum Corp. of Marietta, Pa.

Mr. Cooperman, will you proceed?

STATEMENT OF RICHARD M. COOPERMAN, EXECUTIVE DIRECTOR, ALUMINUM RECYCLING ASSOCIATION; ACCOMPANIED BY MILTON J. AMDUR, PRESIDENT, U.S. ALUMINUM CORP., MARIETTA, PA.

Mr. COOPERMAN. Thank you, Mr. Chairman.

I appreciate the opportunity to appear before the subcommittee today as executive director and on behalf of the Aluminum Recycling Association on extension of the Export Administration Act. We have submitted rather extensive testimony to the subcommittee, but in the interest of time, we will read extracts of the tesimony in summary fashion.

We are an association of 27 companies, mostly small, family owned or otherwise privately held. Our companies operate plants in 17 States.

The secondary aluminum smelting, or aluminum recycling industry produces about 20 percent of all the aluminum produced in the United States. Members of the association that I represent account for approximately 92 percent of the production of the industry.

Mr. Amdur, who is accompanying me today, has his plant in Marietta, Pa., and is a member also of the association's legislative liaison committee.

Like most other industries that are worldwide in scope, the aluminum recycling industry contributes to, and is influenced by, domestic and international economic movements.

I am here today to propose, on behalf of the association that I represent, an escape clause approach to domestic short supply situations attributable to excessive foreign demand in any industry, based on recent world and domestic economic experiences.

The crisis atmosphere that prevailed in U.S. markets for certain commodities in 1973, the ensuing adverse impact on a broad range of industries, the embargoes and severe cutbacks that eventually were imposed, and the economic and political consequences that followed, have clearly demonstrated the inadequacies of U.S. export control policies as they relate to commodities in short supply.

In view of these inadequacies, we recommend that the congressional intention with respect to the administration of short supply authority be set forth much more explicitly.

The aluminum recycling industry is extremely sensitive to the general economy, as was demonstrated dramatically by events in 1972 and 1973.

In late 1972 and early 1973, the U.S. dollar underwent a series of devaluations. During the same period, the economies of many foreign countries were booming. Secondary aluminum producers from Europe and Japan came to the United States and, using cheap American dollars, paid above the market prices for scrap aluminum for their own plants. In addition, some major U.S. primary aluminum producers maintained recycling plants of their own overseas, and shipped some of their scrap to these plants.

The results were predictable. There was a shortage of aluminum scrap for domestic consumption in the United States. Scrap prices soared. Some domestic secondary smelters were forced to reduce their production capacity by approximately 10 to 30 percent.

To assist the subcommittee, we commissioned the development of general policy guidelines for determining the appropriateness of invoking a short supply mechanism. We are not attempting to present precise legislative language, but merely to provide a conceptual model, including an early warning system for dealing with domestic short supply problems attributable to or abetted by excessive foreign demand. Our goal is to formulate objective economic indicators that signal the presence of market conditions warranting either the imposition of export controls or the institution of a surveillance procedure which would assist in determining the necessity of such controls.

The approach which ARA is suggesting is modeled after the statutory escape clause in trade agreements legislation which was created to protect U.S. industries and workers from injurious import competition.

Essentially, the recommended procedure provides that when certain objective economic criteria obtain the Secretary of Commerce is required to set in motion formal export surveillance procedures and international consultations, and then if appropriate under additional

criteria, to impose controls. In the event these criteria are met and the Secretary fails to act, he would be required to report to the Congress the reasons for his failure to act. The need for export controls is generally a result of actual or threatened shortages. It is urgently necessary to minimize inequitable burdens on sectors of the domestic economy and upon foreign purchasers from unavoidable shortages arising out of interruptions in supply or unanticipated surges in world demand. It is equally urgent to avoid patterns of speculative or panic buying that quickly and seriously may disrupt normal supply relationships.

Our tentative proposals can be summarized under four general headings. One, a set of general policy guidelines underlying the use of the revised short supply authority; two, criteria indicating a need for formal export surveillance and international consultation; three, criteria to be taken into account in making a determination whether or not to impose export restraints; four, procedural aspects of an export control program.

General policy guidelines include: One, any short supply program must be formulated within the context of a U.S. foreign economic policy that places continuing long term priority on maintaining an open international trading system with a minimum of governmental interference with the market mechanism.

Two, a major objective of an export surveillance and control program in addition to mitigating the effects of unavoidable shortages, should be to deter the types of disruptive market behavior likely to give rise to a need for export controls.

Three, export controls, when required, must be administered in a reasonable and timely manner including consideration of the short and long term impact of the controls upon sectors of the domestic economy and upon foreign customers.

Four, export controls should be available equitably to any product or industry sector on the basis of meeting objective economic criteria enumerated in the act.

Five, the use of export controls should be preceded, wherever possible, by consultations with the principal importing countries affected and, to the extent feasible, the control program should be developed in a bilateral or multilateral framework.

Six, a decision to impose export controls must be based on a detailed examination of factual circumstances in each particular case.

Seven, export controls should be continued only for such time and to the extent required to remedy, or to prevent the recurrence of the disruptive effects of excessive foreign demand in the U.S. marketplace.

We have some illustrative criteria for export surveillance and international consultations which I shall also summarize.

One, a large or rapid increase in exports, either actual or prospective in relation to available domestic supplies.

Two, a large or rapid increase in domestic price levels that is attributable in significant degree to increased export demand.

Three, in making a determination as to whether formal surveillance is warranted, the Secretary of Commerce should take into account all other information which would assist in determining the causes and probable duration of existing short supply and/or inflationary pres-

sures, their impact upon particular U.S. industries and the economy, and whether available data suggests a trend toward mitigation or exacerbation of current pressures.

We have also criteria to be taken into account in arriving at a determination whether or not to impose export controls, and I shall summarize those also.

In arriving at a determination as to whether controls are warranted, the Secretary should take into account:

One, the elasticities of supply for the product, the extent to which domestic supplies can be increased in the short term in response to higher price levels.

Two, the impact of actual or threatened shortages on the ability of affected sectors of the economy to maintain a reasonable level of operations, including the effects of such shortages on production, capacity utilization, employment and operating margins, the Secretary should consider the probable effects of shortages on the industry as well as the potential adverse effects on indirectly affected industries at later stages of processing, including the extent to which other products may be substituted for the item in short supply in the operations of such industries and the importance to the national economy of the output of the indirectly affected industries.

Additional criteria: the probable effect of price increases for the short supply item on the prices of articles at later stages of processing; disparities between domestic and world or foreign price levels; and available information concerning the nature and duration of any major interruption of domestic or foreign supplies.

We suggest, Mr. Chairman, a general outline of procedural aspects of an export control program. The procedures should provide the opportunity for interested parties to submit petitions for formal surveillance or controls. It should provide opportunities for all interested parties to present their views. It should prescribe time limits for action on the petitions by the Secretary. In the event a petition satisfies the objective criteria of the act, the Secretary should be required to, one, institute an export surveillance procedure and international consultations, or two, institute a system of export controls, or three, report to the Congress the reaosns for his failure to act.

Procedures should be prescribed for review and curtailment of phasing out of controls.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Cooperman on behalf of the Aluminium Recycling Association, follows:]

Prepared Statement of R. M. Cooperman, Executive Director, Aluminum Recycling Association

My name is R. M. Cooperman.

I appreciate the opportunity to appear before the Subcommittee today as Executive Director and on behalf of the Aluminum Recycling Association.

We are an Association of 27 companies, mostly small, family-owned or otherwise privately held. Our companies operate plants in 17 States—Illinois, Ohio, Connecticut, Alabama, New York, Pennsylvania, Texas, Michigan, Delaware, Kansas, Maryland, Wisconsin, Indiana, Arkansas, California and Oklahoma.

The secondary aluminum smelting, or aluminum recycling, industry produces about 20 percent of all the aluminum produced in the United States. The members of the Association that I represent account for approximately 92 percent of the production of the industry.

Since the beginning of the aluminum industry more than 70 years ago, secondary aluminum smelters have kept millions of tons of scrap aluminum from littering our communities by reprocessing it into specification aluminum alloy for various uses. Recycling was a household word in our industry many decades before it became a household word to the general public less than ten years ago.

Like most other industries that are worldwide in scope, the aluminum recycling industry contributes to and is influenced by domestic and international economic movements.

I am here today to propose, on behalf of the Association that I represent, an "escape clause" approach to domestic short supply situations attributable to excessive foreign demand, in any industry, based on recent world and domestic economic experiences.

The dramatic shift in supply-demand relationships in the world economy, from a position of apparent surpluses a few years ago to one of shortages and bottle necks for a growing number of commodities today, has focused attention on the conservation and allocation of limited supplies of scarce resources.

The crisis atmosphere that prevailed in U.S. markets for certain commodities in 1973, the ensuing adverse impact on a broad range of industries, the embargoes and severe cutbacks that eventually were imposed, and the economic and political consequences that followed, have clearly demonstrated the inadequacies of U.S. export control policies as they relate to commodities in "short supply."

In view of these inadequacies, we recommend that the Congressional intention with respect to the administration of short supply authority be set forth much more explicitly.

In order to put our proposal into proper perspective, let me present a brief and somewhat oversimplified description of the experiences of the aluminum recycling industry under the recent economic conditions that I have broadly outlined.

When a ton of primary aluminum is processed into consumer products, approximately one quarter of a ton of scrap aluminum is generated. This scrap is the lifeblood of the recycling (secondary) industry. It is called "New" scrap. NEW scrap accounts for about 75 percent of the aluminum recycling industry's raw material.

The other 25 percent is "old" scrap, generated when consumer products from automobiles to kitchen utensils are no longer useful and are discarded or junked.

Much new scrap and virtually all old scrap is sold to scrap dealers, processors and collectors. The aluminum recycling industry purchases aluminum scrap from these sources.

Secondary aluminum smelters recycle the scrap into aluminum alloy ingots. The largest single use for this recycled aluminum is in die-casting. Aluminum die-castings are important as cost-saving components in nearly every form of industrial and consumer manufacturing. The automotive industry is one of the heaviest users of aluminum die-castings. They also are used in the electronics industry and for home appliances, tools, machinery, photographic and optical equipment, and for hundreds of other products and purposes. Approximately 80 percent of the secondary aluminum alloy is sold to about 800 independent aluminum foundries and die-casters that supply the automotive and other industries.

Unlike primary aluminum which is produced from ore, aluminum scrap is inelastic, in that increased price or demand will not increase the total supply of scrap.

The aluminum recycling industry is extremely sensitive to the general economy, as was demonstrated dramatically by events in 1972 and 1973.

In late 1972 and early 1973, the United States dollar underwent a series of devaluations. During the same period, the economies of many foreign countries were booming. Secondary aluminum producers from Europe and Japan came to the the U.S. and, using cheap American dollars, paid above the market prices for scrap aluminum for their own plants. In addition, some major U.S. primary aluminum producers maintained recycling plants of their own overseas, and shipped some of their scrap to these plants.

The results were predictable. There was a shortage of aluminum scrap for domestic consumption in the United States. Scrap prices soared. Some domestic secondary smelters were forced to reduce their production capacity by approximately 10 to 30 per cent. Because much of the scrap that was exported was of a better grade than the scrap kept, domestic producers had to spend more money

in their reprocessing to provide a high-quality alloy. The price of one pound of secondary alloy ingot rose from about 18½ cents early in 1972, to about 35 cents in 1973, to about 50 cents early this year. Exports were the principal factor that drove prices up.

The supply of primary aluminum also became short in 1973 as a result of energy shortages that forced curtailment of production. When fabricators could not obtain all the aluminum they needed from primary suppliers, they, too, entered the scrap market and bought aluminum scrap. Furthermore, the primary aluminum producers themselves also began to buy aluminum scrap. Die-casters, the principal users of recycled aluminum scrap, consequently experienced a severe shortage of the product, forcing more plant shutdowns and reduced capabilities. And, of course, the industries dependent on aluminum die-castings—automotive, electronics, and the rest—suffered in kind.

All of this was a consequence of the uncurtailed export of aluminum scrap to foreign producers. During that 1972–1973 period, we experienced the greatest exports of aluminum scrap in the history of the industry.

In 1973, the aluminum recycling industry used approximately 1.350 billion pounds of scrap—which it obtained either with difficulty in a scarce market, or at prices considerably higher than those paid previously. Also in 1973, the United States exported about 250 million pounds of aluminum scrap—equivalent to approximately 19 percent of the requirements of the domestic aluminum recycling industry. These exports clearly were the principal reason for shortages and high prices domestically, and the effects were felt throughout the industrial economy in general.

In mid-1973, the Aluminum Recycling Association asked the Secretary of Commerce to impose restraints on exports of aluminum scrap. The statutory criteria for such action were satisfied, but the Secretary chose not to impose an embargo.

As of last month, foreign buyers of domestic aluminum scrap appeared to have left the U.S. market. We anticipate, however, that Japanese and European secondary aluminum producers again will seek a high volume of scrap in the United States in the near future. The Japanese, in particular, require it for their automotive industry. They are short of electrical energy, as we are, and considerably less energy is required to produce secondary aluminum than primary aluminum. It requires 7 kilowatts of energy to produce one pound of primary aluminum and only 20 percent of that energy to produce a pound of recycled alloy. When scrap is sent out of the country we are shipping not only scarce commodity but also crisis-short energy.

This is the perspective in which I appear before the Committee today. We are convinced that further Congressional action is required to prevent the catastrophic economic effect of the kind of short supply situation in any industry that I have described.

To assist the Committee, we commissioned the development of general policy guidelines for determining the appropriateness of invoking a short supply mechanism. We are not attempting to present precise legislative language, but merely to provide a conceptual model, including an early warning system, for dealing with domestic short supply problems attributable to or abbetted by excessive foreign demand. Our goal is to formulate objective economic indicators that signal the presence of market conditions warranting either the imposition of export controls or the institution of a surveillance procedure which would assist in determining the necessity of such controls. This would bring about a more pragmatic administration of the Act and minimize the kinds of crises that cannot be adjusted to by sectors of the domestic economy or foreign purchases.

The approach which ARA is suggesting is modeled after the statutory escape clause in Trade Agreements legislation which was created to protect U.S. Industries and workers from injurious import competition. The parallels are by no means exact. The escape clause is primarily concerned with long-term adjustment to import competition while most export control issues involve problems in the short-term allocation of scarce supplies and resources. The key elements of the escape clause appear to be appropriate to short supply problems, namely: procedural safeguards and nondiscriminatory availability of relief based upon objective economic criteria.

Essentially, the recommended procedure provides that when certain objective economic criteria obtain the Secretary of Commerce is required to set in motion

formal export surveillance procedures and international consultations, and then if appropriate under additional criteria. To impose controls. In the event these criteria are met and the Secretary fails to act, he would be required to report to the Congress the reasons for his failure to act. The need for export controls is generally a result of actual or threatened shortages. It is urgently necessary to minimize inequitable burdens on sectors of the domestic economy (and upon foreign purchases) from unavoidable shortages arising out of interruptions in supply or unanticipated surges in world demand. It is equally urgent to avoid patterns of speculative or panic buying that quickly and seriously may disrupt normal supply relationships.

One major purpose of an effective short supply strategy therefore should be to discourage the types of market behavior (e.g., erratic market participation, hoarding and stockpiling speculative buying which may disrupt markets and precipitate the need for the actual imposition of controls. Improved legislation should make it clear to all parties concerned that certain types of market behavior are likely to result in surveillance and/or controls to deter such behavior. Moreover, when the use of controls is warranted, they should not reward parties engaged in speculative or panic buying operations. The allocation of exports should be based upon a historical period that precedes panic or speculative buying activities.

In short, an effective export control mechanism must be highly pragmatic in concept and administration.

Our tentative proposals can be summarized under four general headings:

I. A set of general policy guidelines underlying the use of the revised "short supply" authority.

II. Criteria indicating a need for formal export surveillance and international consultation.

III. Criteria to be taken into account in making a determination whether or not to impose export controls.

IV. Procedural aspects of an export control program.

The major elements of the proposed program are:

I.—GENERAL POLICY GUIDELINES UNDERLYING THE USE OF A REVISED "SHORT SUPPLY" AUTHORITY

1. Any short supply program must be formulated within the context of a U.S. Foreign economic policy that places continuing long-term priority on maintaining an open international trading system with a minimum of governmental interference with the market mechanism.

2. A major objective of an export surveillance and control program in addition to mitigating the effects of unavoidable shortages, should be to deter the types of disruptive market behavior likely to give rise to a need for export controls. Consequently, export controls should not be regarded as a policy instrument of at last resort, but as a predictable consequence of disruptive market participation.

3. Export controls, when required, must be administered in a reasonable and timely manner including consideration of the short and long-term impact of the controls upon sectors of the domestic economy and upon foreign customers. It is implicit in this principle that the embargoes should be avoided except in the most extraordinary circumstances, and the imposition of controls sufficiently early to effectively cushion adverse effects on the domestic economy and at a level that would minimize the disruptive effects on historical supply relationships.

4. Export controls should be available equitably to any product or industry sector on the basis of meeting objective economic criteria enumerated in the Act. The availability of controls should not be based upon the degree of political pressure a particular interest group is able to bring to bear upon government.

5. Recognizing the extensive, and in some cases complete, dependence of the U.S. on imports of critical materials, the use of export controls should be preceded, wherever possible, by consultations with the principal importing countries affected and, to the extent feasible, the control program should be developed in a bilateral or multilateral framework. Consultative procedures should not be used, however, as a delaying tactic.

6. A decision to impose export controls cannot be based upon any automatic formula or trigger mechanism, but must be based upon a detailed examination of factual circumstances in each particular case, and must take into account all economic factors determined to be relevant.

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7. Export controls should be continued only for such time and to the extent required to remedy, for to prevent the recurrence of, the disruptive effects of excessive foreign demand in the U.S. marketplace. Procedures should be provided for automatic review and/or termination of all controls imposed under this authority.

II. ILLUSTRATIVE CRITERIA INDICATING A NEED FOR EXPORT SURVEILLANCE AND INTERNATIONAL CONSULTATIONS

1. A large or rapid increase in exports either actual or prospective in relation to available domestic supplies. Determinations regarding what constitutes a "large or rapid" increase should take into account both the ratio of total exports to available supply and the percentage increase in exports from a representative base period in relation to historical export trends for the commodity.

2. A large or rapid increase in domestic price levels that is attributable in significant degree to increased export demand. Determinations with respect to this criterion should take into account the degree of overall price stability in the U.S. and world economies. Normal price behavior in the U.S. market for the particular product involved, and any available evidence regarding the extent to which the subject price increases are attributable to demand as distinguished from cost factors.

3. In making a determination as to whether formal surveillance is waranted, the Secretary should take into account all other information which would assist in determining the causes and probable duration of existing short supply and/or inflationary pressures, their impact upon particular U.S. Industries and the economy, and whether available data suggest a trend toward mitigation or exacerbation of current pressures. To the extent available trade and government data permit, the Secretary should also take into account the factors enumerated in Section III, following, particularly as they bear on the appropriateness of a prompt institution of a formal surveillance procedure.

III.—CRITERIA TO BE TAKEN INTO ACCOUNT IN ARRIVING AT A DETERMINATION WHETHER OR NOT TO IMPOSE EXPORT CONTROLS

The principal distinguishing characteristic between setting in motion export surveillance and establishing a prima facie case for controls should be the severity of the existing export-induced shortages or price increases, together with a consideration of the probable impact of delays upon the affected sectors of the U.S. economy.

In arriving at a determination as to whether controls are warranted, the Secretary should take into account, in addition to the criteria outlined in Section II above, the following factors:

1. The elasticities of supply for the produce. Specifically, the extent to which domestic supplies can be increased in the short-term in response to higher price levels. This criterion implies a need for serious consideration of factors influencing availability of supply for particular commodities or classes of commodities e.g., distinctions between renewable and non-renewable resources). For example, where domestic supplies are highly price-elastic, relatively larger price increases presumably could be tolerated without resort to controls, compared with products where domestic supplies are not demonstrably responsive to price movements.

2. The impact of actual or threatened shortages on the ability of affected sectors of the economy to maintain a reasonable level of operations, including the effects of such shortages on production, capacity utilization, employment, and operating margins. In this connection, the Secretary should consider:

(a) the probable effects of shortages on the industry, for industries, most directly affected, as well as the potential adverse effects on indirectly affected industries at later stages of processing. This involves consideration of the potential "negative multiplier" effects flowing from the bottleneck-creating potential of the particular product in short supply.

(b) determinations based upon the potential adverse effects of shortages on the indirectly affected industries (i.e., industries at later stages of processing) should take into account:

(i) the extent to which other products may be substituted for the item in short supply in the operations of such industries.

(ii) the importance to the national economy of the output of the indirectly affected industries.

3. The probable effect of price increases for the short supply item on the prices of articles at later stages of processing.
4. Disparities between domestic and world, or foreign, price levels.
5. Available information concerning the nature and duration of any major interruption of domestic or foreign supplies and/or substantial additions to or contractions of domestic or foreign productive capacity.

IV.—SUGGESTED PROCEDURAL ASPECTS OF AN EXPORT CONTROL PROGRAM

The procedures should provide the opportunity for interested parties to submit petitions for formal surveillance or controls; it should provide opportunities for all interested parties to present their views; and it should prescribe time limits for action on the petitions by the Secretary. In the event a petition satisfies the objective criteria of the Act, the Secretary should be required to:

(1) institute an export surveillance procedure and international consultations, or
(2) institute a system of export controls, or
(3) report to the Congress the reasons for his failure to act.

Procedures should be prescribed for review and curtailment of phasing out of controls.

Mr. Ashley [presiding]. Thank you, Mr. Cooperman, for a very impressive statement.

We will now proceed, gentlemen, with questioning. I would call first on Congressman McKinney.

Mr. McKinney. Thank you, Mr. Chairman.

Gentlemen, it is very nice to have you here. We are sorry that we get up and run out on you all the time, but that is the glamorous life of a Congressman in the afternoon.

Mr. Norris, you said something that really interested me, and I had just never thought of it. We had some testimony as to the great danger implicit in exporting, particularly our computer hardware and so on, and yet you mentioned that you had never noticed the Russians being held back in their military equipment by lack of computers. I suddenly realized that they, too, have gone into space and have obviously utilized very complicated computers. What is the state of their computer industry? Where are they getting their military and space shot equipment from?

Mr. Norris. Well, I mentioned earlier the Ryad series. They started back about 10 years ago to implement a computer program within the Socialist bloc, and it got off to a slow start, but they have borrowed technology from various parts of the world. The Ryad series is a virtual copy of the IBM 360 series with some substantial improvement. They are using more modern circuitry.

We saw in East Germany recently a model 1040, which is considered to be about 80 percent of the power of an IBM model 360–65, which is a pretty good sized computer.

So they have on their own, pretty much developed what we call the central part of the system, the computer main frame, and then the other part that I alluded to, peripheral equipment, for instance, we noted in Bulgaria that there is a fairly modern plant which is manufacturing memory elements, disc packs and disc drives, and again, this technology I think was picked up from various sources.

They bought machine tools in the United Kingdom which were used for this purpose, and just through observation, I believe, in reading the literature and in buying models that were available in the world markets, they were able to bring their peripheral technology up to within 3 or 4 years of ours.

So I think that they have obtained computer technology in spite of our export controls, and I think they have done it largely through their own devices, and through license agreements that they have effected with the French. I think the French have been very helpful.

Now, the other part of your question, where they get their military technology, sir, I cannot answer that.

Mr. McKinney. Well basically I was just interested in the computer part of it.

Mr. Norris. Well, the technology that is in their commercial sector, in the Ryad center series, is quite adequate for their space work.

Mr. McKinney. So, you do not really believe that there is much that we have in the way of existing working hardware that we could sell them that they probably could not get in some form or another from France or England or Germany?

Mr. Norris. That is correct, sir.

Mr. McKinney. We have been so concerned about atomic power plants, and now we find out that the French are arranging to let Saudi Arabia have raw plutonium after their atomic powerplant gets going. Mr. Scudder, you speak nearly and dearly to my heart. One of our papers had to literally cut its edition in half, for a period of 45 days, giving up 60 percent of their advertising revenue.

I note one of your objections seems to be—and it is one of mine—that the Eximbank should not be financing at a favorable rate those exports of short international raw or recycled commodities for which there is tremendous demand.

Would that be a fair statement?

Mr. Scudder. Yes, sir; I certainly would feel that way. It just seems basically that, for an industrial country to export its raw materials is a disastrous path to follow when people are waiting to build a plant that would use the same materials and export finished goods. It is hard to see how the United States can prosper when Japan, for example, has stated a policy of mining the free world of its raw materials, and we all know that Japan has prospered enormously by doing so, and by exporting finished products; and the Department of Commerce's policies seem to indicate that they think the United States can prosper, too, by doing just the opposite. It just could not be further from the truth.

Mr. McKinney. Well, almost every industrial nation can get into competition, say, for the locomotive engine. So I could see a reason for the Eximbank putting out the most favorable of finance terms to sell locomotives, say. But it is a little difficult to understand why they put out favorable terms to sell wheat, which no one else has; to sell soybeans, which we are now doing to Iran, who cut us off in an oil embargo just a while back, and to sell recycled or raw metal or paper products, of which we have a tremendous shortage.

Would you feel that the Department of Commerce and the Department of Agriculture should set a domestic level of necessity on all raw materials over which we could not export?

Mr. Scudder. Only in cases, sir, where there is a genuine domestic shortage; whereas, in the case of these materials, their export has damaged the U.S. economy. We believe it is beneficial to export surpluses, but purely harmful to export materials that are needed for production and jobs domestically.

Mr. McKinney. Do we not need, though, a determined level of domestic necessity. I like to use the soybean situation as an example. We can pave this country with soybeans from one coast to the other coast, including the mountains and the valleys, and we now suddenly have a shortage of soybeans.

Well, I thank you gentlemen very much for your perseverance, and, Mr. Chairman, I will yield back when I am sure there is no more time.

Mr. Ashley. Mr. Frenzel?

Mr. Frenzel. Thank you very much, Mr. Chairman.

I would ask the Chair's indulgence to release our witness, Mr. Norris, at 4 o'clock, so that he might make an airplane and return to the finest congressional district in the United States. [Laughter.]

Mr. Ashley. Mr. Frenzel, before you proceed with your questions, did you want this letter in?

Mr. Frenzel. Yes, Mr. Chairman. I ask unanimous consent that a letter to me from a Washington representative of Control Data, with respect to exports to central Europe and Russia, be inserted into the record at this point.

Mr. Ashley. Without objection, that will be done.

[The letter referred to follows:]

Control Data Corp.,
April 19, 1974.

Hon. Bill Frenzel,
U.S. House of Representatives,
Longworth House Office Building, Washington, D.C.

Dear Mr. Frenzel: Reference is made to our meeting on 11 April 1974, where I agreed to provide you with information concerning Control Data's activities in the USSR and Eastern Europe.

In 1963, Control Data announced its model 6600 computer and began marketing it world-wide. This was the first of the "6000" series of computers and the first machine was delivered in September 1964. In April 1966 the model 6400 was announced, followed by the model 6200 in November 1970. These models were slower in speed and smaller in capacity than the model 6600 and constitute the lower end of Control Data's "6000" line. To date, 136 of these have been sold and delivered, world-wide.

In 1971, Control Data announced its "Cyber" series of computers. This line updated our 6000 series, in a marketing sense only, and provided some new external features without changing the internal speed and capacity features of the 6000 series. Thus, the model 6200 became the Cyber 72, the 6400 became the Cyber 73, the 6600 became the Cyber 74, and the term "Cyber" became a generic term that embraced the 6000 portion of our product line. Of the Cyber 72–73 series, a total of 123 have been shipped, world-wide, bringing the grand total of the 6200/6400 series and the Cyber 72–73 series to 259 up to May 1973. Of these, only two of the smaller models in our product line have been shipped to CMEA countries. A model 6200, was delivered to the Joint Institute for Nuclear Research (JINR) at Dubna, USSR, in October 1972: and, a Cyber 72 was delivered to the Nuclear Research Institute (NRI) at Swierk, Poland, in May 1973. This latter machine was number 61 of the lower Cyber series, or almost number 200 of this lower range of computers. When the Cyber 72–73 models are discontinued, a total of 155 will have been shipped.

One should keep in mind that 6000 and Cyber series constitute the same machines. Over and above these series, Control Data produces the model 7600, for a brief time called the Cyber 76, a large-scale computer of which 29 machines have been delivered to 24 customers, world-wide. Of these, nine have been installed in foreign countries. No model 7600 computers have been sold or shipped to CMEA countries. *The only Control Data computer now under the export licensing process is a Cyber 72 for the University of Krakow, Poland—again, this is the very bottom of our line.* The chart below will give you some idea of the comparative computing power of Control Data's product line. For example, using

the base of 1.0 for the 6200, which is equal to the Cyber 72, the 6400 would have a computing power of roughly 1.2.

6000 Series:	Computing power	Cyber Series:	Computing power	Cyber 170 Series:	Computing power
6200	1.0	Cyber 72	1.0	Cyber 172	1.14
6400	1.19	Cyber 73	1.19	Cyber 173	1.64
6600	3.1	Cyber 74	3.1	Cyber 174	3.28

On the above basis, the Control Data model 7600 would have a computing power of approximately 10.

On 10 April 1974, Control Data announced its Cyber 170 line, which will replace the current Cyber 70 line. This series of computers will employ integrated circuit technology using commercial available components that can be procured from many manufacturers in the United States, Europe and Japan. The objective of the Cyber 170 series is to improve the reliability of Control Data's product line, and achieving a better price/performance ratio as a function of lowered manufacturing costs.

I hope that the above information will be useful in clearinng up some of the questions regarding Control Data's activities in Eastern Europe and the USSR. In order to put any of this type of information in proper perspective, it is necessary to understand that computer technology changes so rapidly that, when a product is announced, the technology embodied therein is already obsolete, or at best, obsolescent. For example, when the model 6600 was announced in 1963, it was based on technology that was already five years old. The same technological time gap continued to exist throughout each successive product announcement.

I would be pleased to provide any additional information that you might require.

Sincerely,

EARLE L. LEBETTE,
Special Assistant to Chief Executive Officer.

Mr. MCKINNEY. Mr. Chairman, I think Mr. Scudder mentioned a petition filed with the Secretary of Commerce in his testimony. Could we put that in the record?

Mr. ASHLEY. Was there such a petition, Mr. Scudder?

Mr. SCUDDER. Yes, sir, there was. It is a formal petition to the Department for export controls.

Mr. MCKINNEY. Could we have that put in the record?

Mr. ASHLEY. What is the nature of that paperwork? Is that voluminous? What is involved there?

Mr. SCUDDER. It is some 20 pages of statistics.

Mr. MCKINNEY. I think it is very valuable, because it is statistics on the recycled paper problems.

Mr. ASHLEY. Without objection, that will be done.

[A letter to the Honorable Frederick B. Dent, Secretary of Commerce, and the formal petition filed with the Department of Commerce referred to by Mr. Scudder in his statement on page 534, follows:]

GARDEN STATE PAPER COMPANY, INC.

1180 RAYMOND BOULEVARD, NEWARK NEW JERSEY 07102 · (201) 622-7878

March 13, 1974

The Honorable Frederick B. Dent
Secretary of Commerce
Washington, D. C.

Dear Mr. Secretary:

I appreciate your letter and the time that you and your people gave me recently.

Garden State Paper Company has been fortunate in that its interests, however unimportant, and the interests of the nation often coincided. Yesterday we received the American Paper Institute's First Annual Award for "Outstanding Achievement in Solid Waste Management."

I think the same thing is true of export controls on raw materials which are needed for domestic manufacture.

We appear to be facing future adverse balance of payments effects of $6 to 7 billion dollars a year for the importation of metals, plus $20 billion, plus or minus, for the importation of oil, minus some very important income from the sale of food. There can be little doubt, however, that the net balance will be substantially adverse, and an adverse balance of payments is analagous to living beyond our means.

I believe that to pay for these imports, we will have to limit the export of raw materials to those amounts that are not needed at home for manufacturing and jobs, and export finished goods instead. I believe that if this country is to prosper economically, and possibly politically as well, it must export paper, not pulp and waste paper; plywood and wood products, not lumber, and similarly in a hundred instances.

You have before you a petition to limit export of waste newspapers from the West Coast to amounts not needed for domestic use. The 13,000 tons of waste newspapers exported every month would support an entire new newsprint mill in California. Plans for such a mill have been cancelled because of these exports.

Our petition has the formal support of thousands of businesses-paper companies, publications, newspapers and printers, and tens of thousands of union members working in these industries. They have seen companies in these fields shut down for lack of raw materials, and they have experienced loss of work themselves. Other businesses, including newspapers, have been forced to reduce their news coverage, advertising and circulation.

The Department has responded to pleas for export controls on waste paper with the statement that exports are but a small part of total waste paper supplies, and that newsprint made from waste newspapers is only 4% of national consumption. This is not a persuasive answer to a man whose plant is shut down, or whose job is threatened, nor is it responsive to the actual situation on the West Coast.

We are exporting waste newspapers at $60 a ton, and for every ton we export, we are importing finished newsprint at $213.50 a ton. This situation, multiplied by the many fields in which it occurs, is a blueprint for economic disaster. It is our premise that it is not rational for this industrial nation to export raw materials which it needs at home and to import finished goods.

Failure to confine the export of raw materials to those not needed at home has added substantially to the cost of manufacture in America. It has limited the quantity of goods manufactured in America. It has contributed mightily to inflation. It has made American goods less competitive with foreign products, and increased importation of foreign goods.

All of these things are contrary to the goals of a sound foreign trade program.

Our petition specifically asks that exports of waste newspapers from the West Coast be limited to amounts not needed at home. It shows that such exports take one-third of all recoverable waste newspapers on the West Coast. It shows that these exports are sufficient to support a new recycled newsprint mill in California, and that, in fact, plans for such a mill have now been cancelled because the raw materials to support it are not available. Meanwhile, 1974 imports of newsprint will have a $1,500,000,000 adverse effect on our balance of payments.

It shows that recovery of waste newspaper on the West Coast in 1973 was 84.7% of the maximum considered feasible by the Midwest Research Institute, and that EPA and others believe it should take five years to achieve that maximum.

It shows that exports to Korea, Japan and Taiwan will strongly increase in 1974 and thereafter.

It shows, in short, that West Coast mills which depend on waste paper are dangerously threatened.

Total waste paper exports from the West Coast reached 90,000 tons in January, compared to 70,000 in December, and an average of 50,000 a month in 1973 and 10,000 in 1972. Exports of waste newspapers were restricted in January by shortages of sea vans.

The same grim situation is beginning to confront mills in the rest of the country. Within the last few months, mills have shut down in Michigan, Pennsylvania, New England and other places because of lack of waste paper.

Last month, when Garden State's big mill in Garfield, New Jersey, was about to run out of fibre, an announcement was made of a $100,000,000 Taiwanese trade mission to be established in Port Newark to buy waste paper, chemicals and scrap metals.

We ask that your Department reassess what is really the intent of Congress. The Export Control Act of 1969 explicitly states the conditions under which the Congress wants export controls applied. These are cases in which there is excessive foreign demand, a domestic shortage, and an inflationary result. No other strictures are found in the Act, or substantially in hearings and discussion that surrounded its passage. The Department of Commerce, however, maintains that, in addition to these restrictions, Congress intended the power to limit exports to be used extremely sparingly and only in cases where such exports have a pervasive damaging effect on the United States economy.

The House, by simplifying the criteria, made clear in the Ashley Bill that it wants the Department of Commerce to act to protect valid American interests against exports. The Administration supported this Bill, and the Senate has maintained that the Department already has all necessary powers.

In any case, foreign raids on United States raw materials--wood, fibre, lumber, waste paper, chemicals, scrap metals, and many others, show a combined effect that is damaging to the well being of our country and our people.

In combination, there is no doubt that the effect of these exports has had a pervasive, harmful effect on the American economy.

There remains the matter of free trade. Most economists, and most of those who understand it, endorse the principles of free trade. Free trade is possible between free economies. It is suicidal, however, when it pits the industries in a free economy against government-industry cartels which, among other things, subsidize the import of raw materials. They do this so that they can export finished goods. They live on the profit, and very handsomely. They talk of "mining" the raw materials from the rest of the world. Meanwhile, our policy regarding export controls rests on the delusion that an industrial nation can do the opposite and profit too. It can't.

Sincerely,

Richard B. Scudder

Richard B. Scudder,
Chairman of the Board

BEFORE THE
U.S. DEPARTMENT OF COMMERCE
WASHINGTON, D.C. 20230

In the Matter of

Petition for Export Controls
on Waste News Under Provisions
of the Export Administration
Act, 1969

ANALYSIS OF PROBLEM AND RECOMMENDED SOLUTION

January 15, 1974

Address inquiries to:

Media General, Inc.
Room 511, Wilson Plaza Building
2425 Wilson Boulevard
Arlington, Virginia 22201

WASTE NEWSPAPERS

Analysis of Supply/Demand/Price Relationships

Resulting From Excessive Foreign Demand

Export Control Petition
to Secretary of Commerce

January 30, 1974

The Honorable Frederick B. Dent
Secretary of Commerce
Washington, D.C. 20230

Dear Mr. Secretary:

It is imperative that we bring to your attention a critical situation that has developed in the United States in respect to the availability of waste newspapers for recycling into urgently needed newsprint and other products.

The situation has become so acute on the West Coast that it is necessary to appeal to you, Mr. Secretary, to invoke the provisions of the Export Administration Act of 1969 to avoid serious injury to domestic industry and to the domestic economy which may result from unchecked exports of waste newspaper.

We respectfully request that you invoke export licensing controls on the West Coast of the United States for the purpose of regulating the flow of waste newspapers to the Far East:

1. To protect domestic industry from abnormal foreign demands for waste newspapers; and to protect the domestic economy from an excessive drain upon the limited available supply of a vital national resource;

2. To slow the pace of skyrocketing prices for waste newspapers in the United States;

3. To minimize the possibility of further endangering domestic newsprint supplies by assuring the availability of recyclable newspapers to maintain domestic newsprint production at peak capacity; and

4. To encourage the expansion of domestic newsprint capacity by ensuring that domestic needs for recyclable newspapers are not preempted by excessive exports.

An unprecendented demand for waste newspapers by Japan, Korea and Taiwan, which reflects the worsening world-wide shortage of fiber, has resulted in the greatest drain of waste newspapers from domestic U. S. markets that has been experienced since World War II. As in the period immediately following World War II excessive foreign demands are today preempting supplies of waste newspapers urgently needed by domestic industry. All indications point to a continuing burgeoning of paper requirements needed to satisfy the rapidly expanding economies of industralized nations of the Far East.

This extraordinary demand for waste newspaper appearing to be almost insatiable because of its persistent nature, has caused the price of

waste news in the U. S. to jump to historic highs at a pace that is also unprecedented. Because of information we have received from overseas sources we know that there is no relief in sight from the continuing demand for newspapers from the United States. Similarly, there appears to be no reasonable limit on the price that Far Eastern importers are able to pay for newspapers imported from the United States.

Mr. Secretary, the United States recycling industry needs your help and encouragement to reverse a dangerous trend that has many harmful implications for our nation's economy.

In this petition we have assembled the facts and data which demonstrate the justification that exists for invoking the Export Administration Act of 1969 to institute export licensing of waste newspaper exports from the West Coast of the United States. To this end we have discharged our responsibility to you as the Administrator of the Export Control Act of 1969 on behalf of the economic well being of the nation.

We are confident, Mr. Secretary, that in discharging your responsibility, in the national interest, you will find with us that it is necessary to invoke export controls to regulate the present injurious rate of exports of waste newspapers from the West Coast.

We would appreciate the opportunity to meet with you, as you may desire, to answer any questions which you may have and to furnish any additional material that you may need.

Sincerely yours,

John M. Barry, Sec.-Treas.
International Labor Press

Stanford Smith, President
American Newspaper Publishers Association

Rodney L. Borum
Printing Industries of America

William Moody
Information Director
Graphic Arts International Union

Alan S. Donnahoe
Media General, Inc.

Joseph P. Tonelli
United Paperworkers International Union

Norman Waldman
National Paper Box Association
EXEC. DIRECTOR

Emory Cunningham, Pres.
Agricultural Publishers Association, Inc.

Richard D. Grier, Executive Director
Second Class Mail Publications, Inc.

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16. Calculation of Recoverable Waste Newspaper in California, Bureau of Census, Midwest Research Institute, API and ANPA, November 1973.

16a. Calculation of Recoverable Waste Newspaper in West Coast, U. S., Bureau of Census, Midwest Research Institute, API and ANPA, November 1973.

17. Utilization of Old Newspapers by Major Users According to End Product Use, 1970-1975, U.S., Pacific Coast, and California Tonnages, American Paper Institute, November 1973.

18. 1970-1975 Wastepaper Utilization in Paper and Paperboard Manufacture for U. S., Pacific Coast Region, and California, American Paper Institute, November 1973.

19. 1970-1975 Wastepaper Utilization in Paper and Paperboard Manufacture for Southern and Northern California, American Paper Institute, November 1973.

20. Wastepaper, No. 1 News, Average of 5 Markets, Wholesale Price Index (1967=100), Bureau of Labor Statistics, November 1973.

21. W.P.I. Market Price Comparison for Selected Months (5 W.P.I. Markets) No. 1 News, Bureau of Labor Statistics, November 1973.

22. U. S. Exports of Wastepaper - First 9 Months - 1971-1973 - 4 Tables:

    (a) Summary by Coastal Area of Export Showing Tons, Dollar Value and Dollars Per Ton
    (b) Tons by Points of Destination
    (c) Dollar Value by Points of Destination
    (d) Dollars Per Ton by Points of Destination

23. Waste News Paper Stock Inventory Data - Garfield, New Jersey Mill, Garden State Paper Company, October 29, 1973.

24. Waste News Paper Stock Inventory Data - Pomona, California Mill, Garden State Paper Company, October 29, 1973.

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26. Major Recycling Effort Planned - The Record, Wednesday, August 22, 1973, Bergen County, New Jersey, The Associated Press.

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29. Worksheet for Projecting 1975 Exports from West Coast and 1975 Waste Newspaper Demand from Korea, Japan, Taiwan.

EXCESSIVE FOREIGN DEMAND FOR WASTE NEWSPAPERS - CONTINUING UNABATED - HAS DRAINED LIMITED WEST COAST SUPPLIES

1. Exports of waste newspapers from West Coast ports have more than tripled in 1973 compared with 1972 exports.[10-11]
2. In 1972 exports totalling 48,384 tons[12] averaged 4,032 tons per month. In 1973 exports from the West Coast in the first 9 months have totalled 109,746 tons[10] averaging 12,194 tons per month.
3. Exports from California alone are estimated at 123,300 tons[14] in 1973 - more than two and one-half times the 1972 exports of 48,384 from the entire West Coast.[12]
4. Exports from the West Coast in 1973 constitute at least 30% - 146,328 tons[16a] - of the 467,048 tons[16a] of waste newspapers estimated to be recovered in California, Oregon, and Washington in 1973.
5. Waste newspaper dealers have reduced shipments to their domestic customers because of local shortages caused by excessive exports.
6. Waste newspaper inventories maintained by West Coast mills have virtually disappeared because of inventory draw-downs being made to maintain production. For example, the newsprint mill in Pomona, California has suffered an inventory loss of 16,468 tons[24] since January 1, 1973 from 19,232 tons to 2,764 tons on October 12, 1973.
7. Attempts to obtain waste newspapers from out-of-state sources were partially successful during a short period between May and August. Waste news was being shipped from Chicago, Omaha, and Houston at an

NOTE: The reference numbers used throughout the text are keyed to the reference sources included in the List of References.

added freight rate cost of approximately $30.00 per ton. These sources have since cut off shipments West because of growing local shortages and the need to satisfy their local customers.

8. This is not a Southern California phenomenon - the paper stock inventory at the Garfield, New Jersey mill has been reduced from 28,490 tons in June to 11,597 tons as at October 25 - a reduction of 16,893 tons - or 59% in less than 5 months.[23]

9. Data compiled by the American Paper Institute corroborates the experience of Garden State. Forty percent of the nation's recycling mills file weekly reports of wastepaper receipts, consumption, and inventories by paper stock grade. Experience in 1973 to date compared with the corresponding period in 1972 indicates that for all grades of wastepaper, inventories are down by 21.2% and for waste news the reduction is 55.5%. (These figures are compiled from reports of Eastern and Mid-west mills - API data is not available for Pacific Coast recyling mills).

10. Korea, Taiwan and Japan will continue to look to the United States to satisfy its urgent demands for waste newspaper and other wastepaper into the foreseeable future. The primary requirement for waste newspaper is for board mills which produce cardboard - and not for newsprint manufacture.

11. <u>Korean</u> demand for used newspapers is expected to grow at almost a 40% rate through 1975. Used newspaper demand, estimated at 154,000 tons[4] in 1973 is expected to grow to 215,500 tons in 1974 and to 284,100 tons in 1975.

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12. Local waste newspaper recovery in Korea is expected to produce only 29,000 tons[4] in 1972, 37,300 tons in 1974, and 43,300 tons in 1975. The recovery rate is 24% in Korea.[4]

13. To make up the difference between Korean demand for, and estimated recovery of waste newspapers, imports must grow from 125,000 tons[4] in 1973 to 178,200 tons in 1974 and to 240,800 tons in 1975.

14. A view of this growth forecast in the perspective of demands made by Korea upon supply sources in the West Coast of the United States indicates:

    (a) The 1973 9 months average of export shipments of 7,522 tons[10] per month to Korea from the West Coast is 390% higher than the 1972 average of 1,536 tons[12] per month.

    (b) The 1973 9 months average of 5,230 tons[10] per month exported to Korea from Southern California alone is 486% higher than the 1972 average of 893 tons.[12]

    (c) Total exports from the West Coast of the United States of used newspapers to Korea could climb to 14,700 tons[29] per month by 1975 compared to 7,522 tons[10] per month in 1973 if Korean demands to achieve a 40% per year growth are satisfied.

    (d) A 40% per year growth in Korean import needs of used newspapers would mean export estimates of around 10,000 tons per month by 1975 from Southern California alone based upon the 9 months average of 5,230 tons[10] per month in 1973.

15. <u>Japanese</u> consumption of waste newspapers from the West Coast of the United States has averaged 2,853 tons[10] per month for the first 9

months of 1973, almost double the average of 1,548 tons[12] per month during 1972.

16. Significantly, 3rd quarter 1973 exports to Japan from the U. S. West Coast totalled 10,186 tons[10] or an average of 3,395 tons for July, August, and September. This compares with an average of 2,581 tons for the first 6 months of 1973, an increase of 814 tons or 31.5% per month. Moreover, the 3rd quarter 1973 monthly average of 3,395 tons compares with an average of 1,530 tons[11] in the corresponding quarter of 1972, an increase of 122%.

17. Additional mill capacity in Japan is expected to generate increased demand in the used newspaper market. A large new mill is reportedly already negotiating for the delivery of 3,000 tons[3-30] per month of used newspapers from Southern California beginning this fall. In 1974 this demand will be at least 5,000 tons per month from California.

18. As an indication of the importance that Japan attaches to imports of waste newspaper from the United States, the Japan Paper Association subsidizes such imports in the amount of $23.00 per ton.[3]

19. Taiwan waste newspaper demands are showing signs of becoming a serious threat to already diminished supplies in the U. S. West Coast. Imports from the West Coast have increased by 415% comparing the 1973 and 1972 average monthly exports for the first 9 months of 1,182 tons and 256 tons respectively.[10-11]

20. The most recent export figures available show that exports of waste newspapers to Taiwan in September 1973 totalled 1,916 tons compared with September 1972 exports of 223 tons.[10-11]

21. A recent advertisement in the Chicago Tribune for 500,000 tons[4] of wastepaper suggests that Taiwan's demand for U. S. waste newspapers may increase beyond any previous rate projections.

22. Assuming the validity of the solicitation, it may be further assumed that the advertised demand constitutes a five-year requirement which would translate to 6,666[4] tons of used newspapers per month. The demand upon the California used newspaper market would represent an additional drain of at least 3,500 tons[29] per month. This is based upon 1973 experience which indicates that California is now supplying 53% of Taiwan demand for used newspapers.

23. In summary, the 1975 export demand upon the West Coast for waste newspapers will far exceed the supply.[29]

    (a) In 1973 it is estimated that 356,720 tons of waste news will be consumed by West Coast domestic mills and that exports to all destinations will be 146,328 tons for a total recovery of 503,048 tons[16a] - or 39.4% of all waste news generated in West Coast Standard Metropolitan Statistical Areas (as defined by the Census Bureau).

    (b) If the projections of increased demand noted above materialize 1975 exports of waste newspapers to Korea, Japan and Taiwan from the West Coast will increase by 16,000 tons per month from 11,800 tons in 1973 to 27,800 tons per month in 1975.[29] On an annual basis this means an increase of 192,000 tons; from 141,600 tons in 1973 to 333,600 tons in 1975.[29]

(c) Assuming that Korea and Taiwan demand growth projections noted above were reduced 50% so that the 1975 estimates would be revised to 11,100 tons and 2,950 tons per month respectively:

(1) The total demand in 1975 (including 8,400 tons per month from Japan) would aggregate 269,400 tons per year, compared with the 141,600 tons being shipped from the West Coast in 1973.

(2) Even an increased demand of 127,800 tons (64,200 tons less than the projection in 23(b) is beyond the maximum limits of waste newspaper supply availability - even at the 43% maximum feasible recovery rate which the Midwest Research Institute forecasts as being achievable in 1985.[2]

INFLATIONARY IMPACT OF ABNORMAL FOREIGN DEMAND

1. The market price for waste news at the dealer's yard has increased by an average of 120% in the major used newspaper markets around the country during the past six months - May to November 1973.[21]

2. It should be noted that the price to board mills ranges from $5.00 to $10.00 higher than the market price that is used by the Bureau of Labor Statistics in its compilation of the Wholesale Price Index.[20]

3. The increases range from $13.00 per ton - from $16.00 to $29.00, or 81.2% - in the New York market; to $27.00 per ton - from $18.00 to $45.00 or 150.0% in the Chicago market.

4. The Bureau of Labor Statistics Wholesale Price Index[20] shows an upward change of 121.3 index points from 101.6 in May 1973 to 222.9 in November - a staggering index increase of 119.3% in a six months period.
5. The San Francisco market, not included in the BLS Index, typifies the universal worsening of the waste news supply situation on the West Coast. An increase of $17.00 per ton from $18.00 in May to $35.00 in November is an increase of 94.4% which exceeds the Los Angeles increase of 82.8%.
6. The San Francisco market picture is particularly noteworthy for California. It reflects the shortage of waste news in Northern California and the drying up of supplies in Southern California.
7. The Bureau of Labor Statistics Wholesale Price Index reflects the serious deterioration of waste news supplies around the country as indicated by an examination of the markets which are used as the basis for constructing the index.
   (a) Waste news prices in Chicago have gone up $27.00 or 150% from $18.00 in May to $45.00 in November.
   (b) In Boston by $23.50 or 151.6% - from $15.50 to $38.00.
   (c) In New York by $13.00 or 81.2% - from $16.00 to $29.00.
   (d) In Philadelphia by $24.00 or 133.3% - from $18.00 to $42.00.
   (e) In Los Angeles by $14.50 or 82.8% - from $17.50 to $32.00.
8. Export market prices indicate the intense competition for available supplies of waste newspapers.

(a) In Los Angeles the BLS W.P.I. indicated the dealer "door" price to be $18.00 in May. Exporters were receiving $33.00 to $39.00 per ton FOB dock - from $6.00 to $12.00 per ton more than the delivered price to the mill.

(b) In November the BLS reported that the Los Angeles "door" price was $32.00. Exporters were receiving $45.00 to $52.00 per ton, FOB dock - from $13.00 to $20.00 per ton more than the domestic market price for such paper.

9. Unrestricted export price competition such as noted above is reflective of the intensity of demand and skyrocketing increases in prices for used newspapers in local Far Eastern markets. For example, the domestic price of used newspapers in Korea has increased from $65.00 to $90.00 per ton in the first six months of 1973.[3] It is, therefore, no hardship for a Korean mill to pay $56.00 per ton plus $34.00 ocean freight for newspapers imported from the United States with devalued dollars.

10. In Japan, where the domestic price rose to $44.00 per ton[3] in the first six months of 1973, an import subsidy of $23.00 per ton, plus a $14.00 yen advantage over the U. S. dollar, enables Japanese importers to pay $81.00 per ton for used newspapers imported from the United States.

11. There appears to be no ceiling on the price that Asian mills can pay for U. S. waste newspaper. <u>In one month</u> the average BLS price of waste news (average of the 5 W.P.I. markets) has jumped by $7.60 per

ton from $29.60 in October to $37.20 in November. The price increases in the 5 W.P.I. markets from October to November 1973 are:

Chicago - $35.00 - $45.00 per ton

Boston - $26.00 - $38.00 per ton

New York - $25.00 - $29.00 per ton

Philadelphia - $33.50 - $42.00 per ton

Los Angeles - $28.50 - $32.00 per ton

The San Francisco price has jumped from $31.00 - $35.00 per ton.

The awesomeness of these skyrocketing prices since May 1973 is depicted in the attached table.[21]

AVAILABILITY OF AND EFFORTS TO RECOVER WASTE NEWSPAPERS[15-16]

1. In 1973 newsprint consumption by American publishers is estimated at 10,409,000 tons.

2. Ninety-eight percent (98%) of 1973 newsprint consumption or 10,201,000 tons will be generated as waste newspapers and the remaining 2% or 208,000 tons will become permanent record material in the form of books, library collections, etc.

3. Of the 10,021,000 tons of generated waste newspapers, 2,475,000 tons[17-18] will be consumed by domestic recycling mills: For the manufacture of newsprint (471,000 tons or 19%); paperboard (1,540,000 tons or 62%); construction board and molded pulp (354,000 tons or 14%); and other paper products (110,000 tons or 4%).

4. In addition, 150,000 tons* of waste newspapers will be exported so that the total tonnage of recovered waste newspapers for 1973 will be 2,625,000 tons.

5. The maximum feasible recovery rate for waste newspapers is estimated by the Midwest Research Institute to be 43% of the tonnage generated in Standard Metropolitan Statistical Areas (Census Bureau) which the Midwest Research Institute estimates to be achievable in 1985.[2]

6. In the 1970 Census of Population the Census Bureau determined that of the 203,212,000 people in the United States, 139,419,000 people lived in Standard Metropolitan Statistical Areas. (Census Bureau Table 41. Population Inside and Outside Standard Metropolitan Statistical Areas by Urban and Rural Residence: 1970)[1]. The SMSA population in the 48 contiguous States numbered 138,790,000 people or 68.6% of the total of 202,143,000 people living in the 48 States.[15]

7. According to the Midwest Research Institute the SMSA's are the areas from which it is considered to be feasible to recover meaningful amounts of waste newspapers.

8. In its study for the American Paper Institute "Paper Recycling - The Art of the Possible - 1970-1985"[2] a projection was made of wastepaper generation in SMSA's in 1985 and the estimated maximum recovery rate range for each of the principal wastepaper grades. (Table 21, page 58). In that projection the estimated maximum recovery rate range was given as 40% - 50%.

* Underestimated - Gulf Coast and East Coast Exports not available.

9. This estimate is further refined in Table 22, page 60, where it is shown that a 43% waste news recovery effort is necessary to achieve a 26% national recycling rate for all wastepaper. This is considered to be the maximum achievable recovery rate for waste newspapers and is essential to the achievement of the maximum feasible national recycling goals.

10. Even if you assumed the maximum 1985 recovery rate of 43% in SMSA's in 1973 the maximum feasible waste news recovery tonnage would be 3,228,395 tons.[15]

11. The estimated 1973 recovery of 2,625,000 tons therefore is 81.3% of the 3,228,395 maximum waste news recovery tonnage using M.R.I. projections of 1985 maximum achievability.

12. A 43% recovery rate from California SMSA's, comprising 92.7% of California's population, would produce 485,841 tons of waste newspapers. In 1973 California will recover 421,300 tons of waste newspapers for domestic consumption and export. This is 86.7% of what M.R.I. estimates to be the maximum feasible recoverable tonnage at a projected achievable recovery rate of 43% by 1985.

13. Nationally, the additional recoverable quantity of waste newspapers at a 43% recovery rate is 603,395 tons based on 1973 estimated newsprint consumption.

14. In California, in 1973, the additional recoverable quantity of waste newspapers at a 43% recovery rate is 64,541 tons, based on 1973 estimated newsprint consumption, but M.R.I. does not project achievement of a 43% recovery rate until 1985.

15. The recycling industry in the United States is bending every effort to advance the achievement of the 43% maximum feasible recovery rate.

16. A maximum effort is underway, for example, in Northern New Jersey where Hackensack Meadowlands Development Commission[27] has joined hands with the State's recyclers and 342 environmental and community groups to stem a tide of 45,000 tons per week of solid waste being dumped on the 20,000 acre undeveloped tract. This coalition is the Committee for Resource Recovery organized in 1972.

The Commission is obliged to answer the disposal needs of 118 communities dumping there when it was formed. Only another three years remain until all available Meadowlands space will be filled up!

The Committee for Resource Recovery has launched an intensive educational campaign to promote recycling of paper, glass, and metal in the 118 communities in order to reduce the influx of solid waste.

Meanwhile, other plans are being formed to make possible a complete phaseout of Meadowlands dumping. A similar Committee for Resource Recovery is now active in California.

17. Communities throughout the country are becoming conscious of the valuable resource that is represented by old newspapers and other forms of solid waste. Wastepaper dealers are encouraging collections of recyclable paper. Although Boy Scouts, civic clubs, and other groups have long conducted newspaper collections throughout the country to raise money, the idea of concerted recycling activities now stems from the new environmental awareness and is bolstered by

the profit motive. A number of successful municipal newspaper collection programs are underway, with noteworthy examples in Hempstead, N.Y., Allentown, Pennsylvania, and Madison, Wisconsin. A new program in San Diego will commence in January 1974. On a smaller scale, thousands of municipal environmental groups are conducting voluntary recycling programs, with material delivered by the public to central collection points. Almost 60 cities in the United States now have municipal separate used newspaper collection programs.

18. The Environmental Protection Agency is lending its assistance and expertise to serious community efforts for turning solid waste into a profitable resource instead of a costly disposal burden.

19. Much is being accomplished and much progress is being made. Unfortunately, there is a considerable time lag between the generation of interest for community action and the actual commencement of the waste recovery program. A minimum of 18 months to 2 years is required to get such programs into operation.[26] But hundreds of them are necessary if M.R.I.'s projections are to be achieved.

IMPLICATIONS OF USED NEWSPAPER SHORTAGES ON U. S. NEWSPRINT SUPPLY

1. Domestic production of newsprint from recycled newspapers will be curtailed unless the excessive flow of used newspapers into the export market is controlled to insure adequate raw material supplies for domestic mills. Severe inventory draw-downs and skyrocketing prices, noted elsewhere in this letter, reflect the increasing export demand and the growing severity of domestic shortages of used newspapers.

2. Dissipation of used newspaper supplies through excessive exports prevents the realization of the most practical solution to the current and long range newsprint supply situation in the United States. That solution lies in the construction of newsprint mills which recycle waste newspapers.

3. The American Newspaper Publishers Association has previously forecast a growth in U. S. newsprint consumption to 13,100,000 tons in 1980,[28] an increase in the next 5 years of 2,691,000 tons, (an average of 538,200 tons per year over the 1973 consumption of 10,409,000 tons). This projection was based upon the assumption that the U. S. would experience an annual average economic growth of 3.7% during the 1970's.

4. The Midwest Research Institute in its report for the American Paper Institute[2] indicated that by 1985 domestic production of newsprint could be between 5.0 million and 5.8 million tons (compared to 3.5 million tons in 1973) "depending upon the recycling rate for newsprint". M.R.I. in the same report forecast that between 11 and 17 new domestic mills can be expected to be built by 1985 and that 50% of new domestic capacity, or eight mills producing 300 tons per day, would have to be in newsprint recycling mills.

5. In six instances it has been proposed that Garden State Paper Co. build newsprint recycling mills in cooperation with publishers. In three of these cases complete financing and purchase of the product was guaranteed by the publishers. In the others, market studies assure sale of the newsprint. In all cases unavailability of waste newspapers has made it impossible to go forward with the projects.

6. Domestic newsprint capacity is desperately needed to reduce the dependence upon foreign sources for newsprint supplies.
7. Yet, it would be sheer folly to commit the vast sums of money for new mill construction in the face of the pernicious export drain of the vital raw material needed for recycled newsprint production.
8. Until there is reasonable assurance through government action that the flow of used newspapers will be regulated to conserve essential domestic requirements there can be no new recycling capacity for newsprint production.

ECONOMIC BENEFITS DERIVED FROM PRODUCING NEWSPRINT IN U. S. FROM RECYCLED NEWSPAPERS

1. Reducing U. S. dependence from foreign sources for newsprint will arrest the adverse effect upon the U. S. balance of international payments. Currently the U. S. is obtaining some 7,000,000 tons of newsprint from Canada annually. At announced 1974 prices of at least $200.00 per ton this means that there is an outflow of $1.4 billion dollars per year.
2. Domestic production must be increased by 300,000 to 500,000 tons per year to meet forecast demand. In terms of Canadian newsprint prices this means $60,000,000 to $100,000,000 per year in payments to foreign sources if this demand cannot be satisfied domestically.
3. Increased newsprint demand that is satisfied by increased domestic newsprint capacity contributes to supply and price stability. This avoids the inflationary impact of higher newspaper costs, higher advertising costs and higher consumer prices for the advertised goods.

4. A lesser dependence upon foreign source newsprint will have not only a moderating influence on price increases in such newsprint but may possibly avoid another hiatus such as the one which now confronts the U. S. in the importation of oil from the Middle East and from Canada.
5. Exportation of short supply raw materials such as waste newspapers is a net loss proposition compared to the export benefit gained from the sale abroad of newsprint. At a price of \$40.00 - \$50.00 per ton for waste news in the export market the net loss to the U. S. balance of international payments is at least \$150.00 for each ton of imported newsprint. Similarly, increased domestic capacity may conceivably result in newsprint exports by U. S. mills to paper hungry and fiber short countries. Exports of newsprint at \$230.00 to \$350.00 per ton would have an overwhelming advantage over the export income from the sale of waste newspapers.
5. Finally, encouragement of domestic capacity increases for newsprint production would unquestionably stimulate increased recovery of waste newspapers. The economic benefit to communities in reducing solid waste disposal costs is measured in millions of dollars nationally.

ENVIRONMENTAL BENEFITS DERIVED FROM RECYCLING NEWSPAPERS

1. Substitution of wastepaper for virgin fiber results in significant beneficial environmental impacts.
2. There is no air pollution whatever in the recycling of waste newspapers into newsprint; other than the controlled emissions - within government prescribed limits - resulting from the generation of power to run the plant.

3. There is a savings of 65% to 70% in the energy requirement of a recycling mill compared to the energy requirement of a virgin pulp mill. The waste news recycling mill in Pomona, California, for example, requires 535 kilowatt hours per ton of recycled newsprint compared to 1600-1800 kilowatt hours required by a Pacific Coast virgin fiber mill.
4. Water pollution is controlled by the discharge of the effluent into the municipal waste treatment plant.
5. Waste newspapers consumed in newsprint production are diverted from the solid waste burden borne by municipalities. It is estimated that in 1973, 14,096,000 tons[18] of wastepaper will be recycled in the U. S. of which 2,475,000 tons will be waste newspapers. In California waste newspapers are being recovered for recycling and export in an unprecedented annual quantity of 421,300 tons[14] which represents a recovery rate of 33.9% of the total estimated newsprint consumption of 1,243,713 tons. In Southern California which is experiencing the greatest drain of waste newspapers moving out of the country the recovery rate is an astonishing 36%, or 304,300 tons[14] of waste news being recovered out of 845,725 tons of estimated newsprint consumption.
6. Urban areas are experiencing solid waste management costs at $15.00 to $30.00 per ton[2] (including collection and disposal) which costs will continue to rise as nearby disposal sites fill up requiring costly acquisition of new sites in remote areas.
7. Reutilization of waste newspapers reduces the need for cutting virgin timber for newsprint and other paper products.

8. Each ton of paper recycled would allow land to be used for other purposes, such as lumber production or for a non-foresting function, such as recreation.

9. The U. S. Forest Service predicts that by the year 2,000 a shortage of 20 billion board feet of softwood raw timber will exist. The shortage will reach 10 billion board feet by 1980.[13] One million tons of wastepaper recycled saves 1.4 billion board feet of timber.*

10. The land commitment required to produce an annual timber growth sufficient to yield 1 million tons of pulp per year is roughly 2.5 million acres.*

* Source: Environmental Protection Agency

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REF. 1

1970 CENSUS OF POPULATION

volume I	CHARACTERISTICS OF THE POPULATION
part A	Number of Inhabitants

Issued May 1972

U. S. DEPARTMENT OF COMMERCE
Peter G. Peterson, Secretary
James T. Lynn, Under Secretary
Harold C. Passer, Assistant Secretary for Economic Affairs and Administrator,
Social and Economic Statistics Administration
BUREAU OF THE CENSUS
George Hay Brown, Director

Table 41. Population Inside and Outside Standard Metropolitan Statistical Areas by Urban and Rural Residence: 1970

[For meaning of symbols, see text]

States SMSA's	Total		Urban			Rural			Percent distribution						
										Urban			Rural		
	Number	Per-cent	Total	Central cities	Other urban	Total	Places of 1,000 to 2,500	Other rural	Total	Total	Cen-tral cities	Other urban	Total	Places of 1,000 to 2,500	Other rural
United States	203,211,926	100.0	149,324,930	63,796,943	85,527,987	53,886,996	6,656,007	47,230,989	100.0	73.5	31.4	42.1	26.5	3.3	23.2
Inside SMSA's	139,418,811	68.6	123,007,271	63,796,943	59,210,328	16,411,540	1,592,152	14,819,388	100.0	88.2	45.8	42.5	11.8	1.1	10.6
Outside SMSA's	63,793,115	31.4	26,317,659	-	26,317,659	37,475,456	5,063,855	32,411,601	100.0	41.3	-	41.3	58.7	7.9	50.8
Alabama	3,444,165	100.0	2,011,941	881,825	1,130,116	1,432,224	135,282	1,296,942	100.0	58.4	25.6	32.8	41.6	3.9	37.7
Inside SMSA's	1,801,095	52.3	1,352,765	881,825	470,940	448,330	31,000	417,330	100.0	75.1	49.0	26.1	24.9	1.7	23.2
Birmingham	739,274	21.5	590,348	300,910	289,438	148,926	16,545	132,381	100.0	79.9	40.7	39.2	20.1	2.2	17.9
Columbus, Ga.-Ala.[1]	45,394	1.3	25,281	-	25,281	20,113	-	20,113	100.0	55.7	-	55.7	44.3	-	44.3
Gadsden	94,144	2.7	67,868	53,928	13,940	26,276	2,133	24,143	100.0	72.1	57.3	14.8	27.9	2.3	25.6
Huntsville	228,239	6.6	160,925	137,802	23,123	67,314	1,300	66,014	100.0	70.5	60.4	10.1	29.5	0.6	28.9
Mobile	376,690	10.9	276,295	190,026	86,269	100,395	9,838	90,557	100.0	73.3	50.4	22.9	26.7	2.6	24.0
Montgomery	201,325	5.8	146,173	133,386	12,787	55,152	1,184	53,968	100.0	72.6	66.3	6.4	27.4	0.6	26.8
Tuscaloosa	116,029	3.4	85,875	65,773	20,102	30,154	-	30,154	100.0	74.0	56.7	17.3	26.0	-	26.0
Outside SMSA's	1,643,070	47.7	659,176	-	659,176	983,894	104,282	879,612	100.0	40.1	-	40.1	59.9	6.3	53.5
Alaska	300,382	100.0	145,512	-	145,512	154,870	37,853	117,017	100.0	48.4	-	48.4	51.6	12.6	39.0
Inside SMSA's	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Outside SMSA's	300,382	100.0	145,512	-	145,512	154,870	37,853	117,017	100.0	48.4	-	48.4	51.6	12.6	39.0
Arizona	1,770,900	100.0	1,408,864	844,495	564,369	362,036	52,981	309,055	100.0	79.6	47.7	31.9	20.4	3.0	17.5
Inside SMSA's	1,319,189	74.5	1,203,862	844,495	359,367	115,327	7,570	107,757	100.0	91.3	64.0	27.2	8.7	0.6	8.2
Phoenix	967,522	54.6	903,797	581,562	322,235	63,725	7,570	56,155	100.0	93.4	60.1	33.3	6.6	0.8	5.8
Tucson	351,667	19.9	300,065	262,933	37,132	51,602	-	51,602	100.0	85.3	74.8	10.6	14.7	-	14.7
Outside SMSA's	451,711	25.5	205,002	-	205,002	246,709	45,411	201,298	100.0	45.4	-	45.4	54.6	10.1	44.6
Arkansas	1,923,295	100.0	960,865	334,396	626,469	962,430	107,722	854,708	100.0	50.0	17.4	32.6	50.0	5.6	44.4
Inside SMSA's	595,030	30.9	443,993	334,396	109,597	151,037	8,855	142,182	100.0	74.6	56.2	18.4	25.4	1.5	23.9
Fort Smith, Ark.-Okla.[1]	104,914	5.5	73,419	62,802	10,617	31,495	4,985	26,510	100.0	70.0	59.9	10.1	30.0	4.8	25.3
Little Rock-North Little Rock	323,296	16.8	258,947	192,523	66,424	64,349	1,199	63,150	100.0	80.1	59.6	20.5	19.9	0.4	19.5
Memphis, Tenn.-Ark.[1]	48,106	2.5	29,038	-	29,038	19,068	1,634	17,434	100.0	60.4	-	60.4	39.6	3.4	36.2
Pine Bluff	85,329	4.4	60,907	57,389	3,518	24,422	1,037	23,385	100.0	71.4	67.3	4.1	28.6	1.2	27.4
Texarkana, Tex.-Ark.[1]	33,385	1.7	21,682	21,682	-	11,703	-	11,703	100.0	64.9	64.9	-	35.1	-	35.1
Outside SMSA's	1,328,265	69.1	516,872	-	516,872	811,393	98,867	712,526	100.0	38.9	-	38.9	61.1	7.4	53.6
California	19,953,134	100.0	18,136,045	7,238,502	10,897,543	1,817,089	201,857	1,615,232	100.0	90.9	36.3	54.6	9.1	1.0	8.1
Inside SMSA's	18,500,006	92.7	17,387,736	7,238,502	10,149,234	1,112,270	99,972	1,012,298	100.0	94.0	39.1	54.9	6.0	0.5	5.5
Anaheim-Santa Ana-Garden Grove	1,420,386	7.1	1,404,325	445,826	958,499	16,061	2,106	13,955	100.0	98.9	31.4	67.5	1.1	0.1	1.0
Bakersfield	329,162	1.6	264,221	69,515	194,706	64,941	14,387	50,554	100.0	80.3	21.1	59.2	19.7	4.4	15.4
Fresno	413,053	2.1	309,871	165,972	143,899	103,182	11,121	92,061	100.0	75.0	40.2	34.8	25.0	2.7	22.3
Los Angeles-Long Beach	7,032,075	35.2	6,938,453	3,174,694	3,763,759	93,622	3,692	89,930	100.0	98.7	45.1	53.5	1.3	0.1	1.3
Modesto	194,506	1.0	136,294	61,712	74,582	58,212	12,624	45,588	100.0	70.1	31.7	38.3	29.9	6.5	23.4
Oxnard-Ventura	376,430	1.9	347,234	127,022	220,212	29,196	1,113	28,083	100.0	92.2	33.7	58.5	7.8	0.3	7.5
Sacramento	800,592	4.0	701,591	254,413	447,178	99,001	8,098	90,903	100.0	87.6	31.8	55.9	12.4	1.0	11.4
Salinas-Monterey	250,071	1.3	186,087	85,198	100,889	63,984	1,407	62,577	100.0	74.4	34.1	40.3	25.6	0.6	25.0
San Bernardino-Riverside-Ontario	1,143,146	5.7	971,986	308,458	663,528	171,160	16,374	154,786	100.0	85.0	27.0	58.0	15.0	1.4	13.5
San Diego	1,357,854	6.8	1,270,735	693,931	576,804	87,119	1,570	85,549	100.0	93.6	51.1	42.5	6.4	0.1	6.3
San Francisco-Oakland	3,109,519	15.6	3,037,091	1,077,235	1,959,856	72,428	5,636	66,792	100.0	97.7	34.6	63.0	2.3	0.2	2.1
San Jose	1,064,714	5.3	1,037,938	443,950	593,988	26,776	2,844	23,932	100.0	97.5	41.7	55.8	2.5	0.3	2.2
Santa Barbara	264,324	1.3	234,329	70,215	164,114	29,995	3,406	26,589	100.0	88.7	26.6	62.1	11.3	1.3	10.1
Santa Rosa	204,885	1.0	120,305	50,006	70,299	84,580	5,480	79,100	100.0	58.7	24.4	34.3	41.3	2.7	38.6
Stockton	290,208	1.5	223,248	107,644	115,604	66,960	5,900	61,060	100.0	76.9	37.1	39.8	23.1	2.0	21.0
Vallejo-Napa	249,081	1.2	204,028	102,711	101,317	45,053	4,214	40,839	100.0	81.9	41.2	40.7	18.1	1.7	16.4
Outside SMSA's	1,453,128	7.3	748,309	-	748,309	704,819	101,885	602,934	100.0	51.5	-	51.5	48.5	7.0	41.5
Colorado	2,207,259	100.0	1,733,311	747,191	986,120	473,948	65,441	408,507	100.0	78.5	33.9	44.7	21.5	3.0	18.5
Inside SMSA's	1,581,739	71.7	1,469,803	747,191	722,612	111,936	4,737	107,199	100.0	92.9	47.2	45.7	7.1	0.3	6.8
Colorado Springs	235,972	10.7	208,281	135,060	73,221	27,691	-	27,691	100.0	88.3	57.2	31.0	11.7	-	11.7
Denver	1,227,529	55.6	1,158,222	514,678	643,544	69,307	4,737	64,570	100.0	94.4	41.9	52.4	5.6	0.4	5.3
Pueblo	118,238	5.4	103,300	97,453	5,847	14,938	-	14,938	100.0	87.4	82.4	4.9	12.6	-	12.6
Outside SMSA's	625,520	28.3	263,506	-	263,508	362,012	60,704	301,308	100.0	42.1	-	42.1	57.9	9.7	48.2
Connecticut	3,031,709	100.0	2,345,052	1,066,941	1,278,111	686,657	42,958	643,899	100.0	77.4	35.2	42.2	22.6	1.4	21.2
Inside SMSA's	2,504,802	82.6	2,116,331	1,066,941	1,049,390	388,471	18,576	369,895	100.0	84.5	42.6	41.9	15.5	0.7	14.8
Bridgeport	389,153	12.8	369,943	156,542	213,401	19,210	-	19,210	100.0	95.1	40.2	54.8	4.9	-	4.9
Bristol	65,808	2.2	62,981	55,487	7,494	2,827	-	2,827	100.0	95.7	84.3	11.4	4.3	-	4.3
Danbury	78,405	2.6	64,476	50,781	13,695	13,929	-	13,929	100.0	82.2	64.8	17.5	17.8	-	17.8
Hartford	663,891	21.9	540,984	158,017	382,967	122,907	6,700	116,207	100.0	81.5	23.8	57.7	18.5	1.0	17.5
Meriden	55,959	1.8	55,959	55,959	-	-	-	-	100.0	100.0	100.0	-	-	-	-
New Britain	145,269	4.8	130,649	83,441	47,208	14,620	-	14,620	100.0	89.9	57.4	32.5	10.1	-	10.1
New Haven	355,538	11.7	312,776	137,707	175,069	42,762	-	42,762	100.0	88.0	38.7	49.2	12.0	-	12.0
New London-Groton-Norwich	208,412	6.9	116,721	73,063	43,658	91,691	8,313	83,378	100.0	56.0	35.1	20.9	44.0	4.0	40.0
Norwalk	120,099	4.0	105,847	79,113	26,734	14,252	947	13,305	100.0	88.1	65.9	22.3	11.9	0.8	11.1
Springfield-Chicopee-									100.0						
Holyoke, Mass.-Conn.[1]	6,893	0.2	-	-	-	6,893	1,274	5,619	100.0	-	-	-	100.0	18.5	81.5
Stamford	206,419	6.8	185,758	108,798	76,960	20,661	-	20,661	100.0	90.0	52.7	37.3	10.0	-	10.0
Waterbury	208,956	6.9	170,237	108,033	62,204	38,719	1,342	37,377	100.0	81.5	51.7	29.8	18.5	0.6	17.9
Outside SMSA's	526,907	17.4	228,721	-	228,721	298,186	24,382	273,804	100.0	43.4	-	43.4	56.6	4.6	52.0

See footnote at end of table.

Table 41. Population Inside and Outside Standard Metropolitan Statistical Areas by Urban and Rural Residence: 1970—Continued

[For meaning of symbols, see text]

States SMSA's	Total		Urban			Rural			Percent distribution						
										Urban			Rural		
	Number	Percent	Total	Central cities	Other urban	Total	Places of 1,000 to 2,500	Other rural	Total	Total	Central cities	Other urban	Total	Places of 1,000 to 2,500	Other rural
Delaware	548,104	100.0	395,569	80,386	315,183	152,535	25,021	127,514	100.0	72.2	14.7	57.5	27.8	4.6	23.3
Inside SMSA's	385,856	70.4	352,318	80,386	271,932	33,538	2,024	31,514	100.0	91.3	20.8	70.5	8.7	0.5	8.2
Wilmington, Del.-N.J.-Md.[1]	385,856	70.4	352,318	80,386	271,932	33,538	2,024	31,514	100.0	91.3	20.8	70.5	8.7	0.5	8.2
Outside SMSA's	162,248	29.6	43,251	-	43,251	118,997	22,997	96,000	100.0	26.7	-	26.7	73.3	14.2	59.2
District of Columbia	756,510	100.0	756,510	756,510	-	-	-	-	100.0	100.0	100.0	-	-	-	-
Inside SMSA's	756,510	100.0	756,510	756,510	-	-	-	-	100.0	100.0	100.0	-	-	-	-
Washington, D.C.-Md.-Va.[1]	756,510	100.0	756,510	756,510	-	-	-	-	100.0	100.0	100.0	-	-	-	-
Outside SMSA's	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Florida	6,789,443	100.0	5,468,137	1,945,662	3,522,475	1,321,306	172,310	1,148,996	100.0	80.5	28.7	51.9	19.5	2.5	16.9
Inside SMSA's	4,656,993	68.6	4,271,206	1,945,662	2,325,544	385,787	27,155	358,632	100.0	91.7	41.8	49.9	8.3	0.6	7.7
Fort Lauderdale-Hollywood	620,100	9.1	613,797	246,463	367,334	6,303	-	6,303	100.0	99.0	39.7	59.2	1.0	-	1.0
Gainesville	104,764	1.5	72,116	64,510	7,606	32,648	4,625	28,023	100.0	68.8	61.6	7.3	31.2	4.4	26.7
Jacksonville	528,865	7.8	518,131	518,131	-	10,734	-	10,734	100.0	98.0	98.0	-	2.0	-	2.0
Miami	1,267,792	18.7	1,246,725	334,859	911,866	21,067	-	21,067	100.0	98.3	26.4	71.9	1.7	-	1.7
Orlando	428,003	6.3	338,602	99,006	239,596	89,401	7,406	81,995	100.0	79.1	23.1	56.0	20.9	1.7	19.2
Pensacola	243,075	3.6	185,528	59,507	126,021	57,547	1,776	55,771	100.0	76.3	24.5	51.8	23.7	0.7	22.9
Tallahassee	103,047	1.5	77,851	71,897	5,954	25,196	-	25,196	100.0	75.5	69.8	5.8	24.5	-	24.5
Tampa-St. Petersburg	1,012,594	14.9	900,547	493,999	406,548	112,047	11,456	100,591	100.0	88.9	48.8	40.1	11.1	1.1	9.9
West Palm Beach	348,753	5.1	317,909	57,290	260,619	30,644	1,892	28,952	100.0	91.2	16.4	74.7	8.8	0.5	8.3
Outside SMSA's	2,132,450	31.4	1,196,931	-	1,196,931	935,519	145,155	790,364	100.0	56.1	-	56.1	43.9	6.8	37.1
Georgia	4,589,575	100.0	2,768,074	1,024,400	1,743,674	1,821,501	172,307	1,649,194	100.0	60.3	22.3	38.0	39.7	3.8	35.9
Inside SMSA's	2,280,230	49.7	1,958,583	1,024,400	934,183	321,647	25,575	296,072	100.0	85.9	44.9	41.0	14.1	1.1	13.0
Albany	89,639	2.0	76,512	72,623	3,889	13,127	1,819	11,308	100.0	85.4	81.0	4.3	14.6	2.0	12.6
Atlanta	1,390,164	30.3	1,200,102	496,973	703,129	190,062	14,047	176,015	100.0	86.3	35.7	50.6	13.7	1.0	12.7
Augusta, Ga.-S.C.[1]	162,437	3.5	142,359	59,864	82,495	20,078	-	20,078	100.0	87.6	36.9	50.8	12.4	-	12.4
Chattanooga, Tenn.-Ga.[1]	50,691	1.1	21,822	-	21,822	28,869	1,842	27,027	100.0	43.0	-	43.0	57.0	3.6	53.3
Columbus, Ga.-Ala.[1]	193,190	4.2	183,335	154,168	29,167	9,855	1,251	8,604	100.0	94.9	79.8	15.1	5.1	0.6	4.5
Macon	206,342	4.5	167,416	122,423	44,993	38,926	1,725	37,201	100.0	81.1	59.3	21.8	18.9	0.8	18.0
Savannah	187,767	4.1	167,037	118,349	48,688	20,730	4,891	15,839	100.0	89.0	63.0	25.9	11.0	2.6	8.4
Outside SMSA's	2,309,345	50.3	809,491	-	809,491	1,499,854	146,732	1,353,122	100.0	35.1	-	35.1	64.9	6.4	58.6
Hawaii	768,561	100.0	638,683	324,871	313,812	129,878	42,377	87,501	100.0	83.1	42.3	40.8	16.9	5.5	11.4
Inside SMSA's	629,176	81.9	585,435	324,871	260,564	43,741	13,929	29,812	100.0	93.0	51.6	41.4	7.0	2.2	4.7
Honolulu	629,176	81.9	585,435	324,871	260,564	43,741	13,929	29,812	100.0	93.0	51.6	41.4	7.0	2.2	4.7
Outside SMSA's	139,385	18.1	53,248	-	53,248	86,137	28,448	57,689	100.0	38.2	-	38.2	61.8	20.4	41.4
Idaho	712,567	100.0	385,434	74,990	310,444	327,133	43,312	283,821	100.0	54.1	10.5	43.6	45.9	6.1	39.8
Inside SMSA's	112,230	15.8	87,803	74,990	12,813	24,427	-	24,427	100.0	78.2	66.8	11.4	21.8	-	21.8
Boise City	112,230	15.8	87,803	74,990	12,813	24,427	-	24,427	100.0	78.2	66.8	11.4	21.8	-	21.8
Outside SMSA's	600,337	84.2	297,631	-	297,631	302,706	43,312	259,394	100.0	49.6	-	49.6	50.4	7.2	43.2
Illinois	11,113,976	100.0	9,229,821	4,075,563	5,154,258	1,884,155	357,589	1,526,566	100.0	83.0	36.7	46.4	17.0	3.2	13.7
Inside SMSA's	8,903,065	80.1	8,200,299	4,075,563	4,124,736	702,786	141,638	561,128	100.0	92.1	45.8	46.3	7.9	1.6	6.3
Bloomington-Normal	104,389	0.9	69,392	66,388	3,004	34,997	8,358	26,639	100.0	66.5	63.6	2.9	33.5	8.0	25.5
Champaign-Urbana	163,281	1.5	125,979	89,332	36,647	37,302	8,778	28,524	100.0	77.2	54.7	22.4	22.8	5.4	17.5
Chicago	6,978,947	62.8	6,710,912	3,366,957	3,343,955	268,035	46,494	221,541	100.0	96.2	48.2	47.9	3.8	0.7	3.2
Davenport-Rock Island-Moline, Iowa-Ill.[1]	219,981	2.0	170,319	96,403	73,916	49,632	7,464	42,168	100.0	77.4	43.8	33.6	22.6	3.4	19.2
Decatur	125,010	1.1	99,693	90,397	9,296	25,317	6,023	19,294	100.0	79.7	72.3	7.4	20.3	4.8	15.4
Peoria	341,979	3.1	256,201	126,963	129,238	85,778	22,668	63,110	100.0	74.9	37.1	37.8	25.1	6.6	18.5
Rockford	272,063	2.4	223,949	147,370	76,579	48,114	5,165	42,949	100.0	82.3	54.2	28.1	17.7	1.9	15.8
St. Louis, Mo.-Ill.[1]	536,110	4.8	417,678	-	417,678	118,432	28,863	89,569	100.0	77.9	-	77.9	22.1	5.4	16.7
Springfield	161,335	1.5	126,176	91,753	34,423	35,159	7,825	27,334	100.0	78.2	56.9	21.3	21.8	4.9	17.0
Outside SMSA's	2,210,911	19.9	1,029,522	-	1,029,522	1,181,389	215,951	965,438	100.0	46.6	-	46.6	53.4	9.8	43.7
Indiana	5,193,669	100.0	3,372,060	1,789,622	1,582,438	1,821,609	194,127	1,627,482	100.0	64.9	34.5	30.5	35.1	3.7	31.3
Inside SMSA's	3,213,598	61.9	2,547,931	1,789,622	758,309	665,667	59,821	605,846	100.0	79.3	55.7	23.6	20.7	1.9	18.9
Anderson	138,451	2.7	96,997	70,787	26,210	41,454	6,868	34,586	100.0	70.1	51.1	18.9	29.9	5.0	25.0
Cincinnati, Ohio-Ky.-Ind.[1]	29,430	0.6	12,712	-	12,712	16,718	-	16,718	100.0	43.2	-	43.2	56.8	-	56.8
Evansville, Ind.-Ky.[1]	196,744	3.8	148,212	138,764	9,448	48,532	4,334	44,198	100.0	75.3	70.5	4.8	24.7	2.2	22.5
Fort Wayne	280,455	5.4	225,184	177,671	47,513	55,271	1,353	53,918	100.0	80.3	63.4	16.9	19.7	0.5	19.2
Gary-Hammond-East Chicago	633,367	12.2	571,801	330,187	241,614	61,566	7,060	54,506	100.0	90.3	52.1	38.1	9.7	1.1	8.6
Indianapolis	1,109,882	21.4	915,477	743,155	172,322	194,405	16,711	177,694	100.0	82.5	67.0	15.5	17.5	1.5	16.0
Lafayette-West Lafayette	109,378	2.1	79,117	64,112	15,005	30,261	-	30,261	100.0	72.3	58.6	13.7	27.7	-	27.7
Louisville, Ky.-Ind.[1]	131,498	2.5	90,555	-	90,555	40,943	1,273	39,670	100.0	68.9	-	68.9	31.1	1.0	30.2
Muncie	129,219	2.5	90,427	69,080	21,347	38,792	5,617	33,175	100.0	70.0	53.5	16.5	30.0	4.3	25.7
South Bend	280,031	5.4	218,355	125,580	92,775	61,676	10,822	50,854	100.0	78.0	44.8	33.1	22.0	3.9	18.2
Terre Haute	175,143	3.4	99,094	70,286	28,808	76,049	5,783	70,266	100.0	56.6	40.1	16.4	43.4	3.3	40.1
Outside SMSA's	1,980,071	38.1	824,129	-	824,129	1,155,942	134,306	1,021,636	100.0	41.6	-	41.6	58.4	6.8	51.6

See footnote at end of table.

Table 41. Population Inside and Outside Standard Metropolitan Statistical Areas by Urban and Rural Residence: 1970—Continued

[For meaning of symbols, see text]

States SMSA's	Total: Number	Total: Percent	Urban: Total	Urban: Central cities	Urban: Other urban	Rural: Total	Rural: Places of 1,000 to 2,500	Rural: Other rural	Percent distribution: Total	Percent distribution: Urban: Total	Percent distribution: Urban: Central cities	Percent distribution: Urban: Other urban	Percent distribution: Rural: Total	Percent distribution: Rural: Places of 1,000 to 2,500	Percent distribution: Rural: Other rural
Iowa	2,824,376	100.0	1,616,405	631,666	984,739	1,207,971	203,322	1,004,649	100.0	57.2	22.4	34.9	42.8	7.2	35.6
Inside SMSA's	1,005,569	35.6	858,476	631,666	226,810	147,093	20,921	126,172	100.0	85.4	62.8	22.6	14.6	2.1	12.5
Cedar Rapids	163,213	5.8	135,026	110,642	24,384	28,187	3,901	24,286	100.0	82.7	67.8	14.9	17.3	2.4	14.9
Davenport-Rock Island-Moline, Iowa-Ill.[1]	142,687	5.1	126,295	97,593	28,702	16,392	2,572	13,820	100.0	88.5	68.4	20.1	11.5	1.8	9.7
Des Moines	286,101	10.1	265,764	200,587	65,177	20,337	1,341	18,996	100.0	92.9	70.1	22.8	7.1	0.5	6.6
Dubuque	90,609	3.2	66,506	62,309	4,197	24,103	3,572	20,531	100.0	73.4	68.8	4.6	26.6	3.9	22.7
Omaha, Nebr.-Iowa	86,991	3.1	64,847	-	64,847	22,144	3,138	19,006	100.0	74.5	-	74.5	25.5	3.6	21.8
Sioux City, Iowa-Nebr.[1]	103,052	3.6	87,157	85,925	1,232	15,895	1,198	14,697	100.0	84.6	83.4	1.2	15.4	1.2	14.3
Waterloo	132,916	4.7	112,881	74,610	38,271	20,035	5,199	14,836	100.0	84.9	56.1	28.8	15.1	3.9	11.2
Outside SMSA's	1,818,807	64.4	757,929	-	757,929	1,060,878	182,401	878,477	100.0	41.7	-	41.7	58.3	10.0	48.3
Kansas	2,246,578	100.0	1,484,870	401,565	1,063,305	761,706	154,671	607,037	100.0	66.1	17.9	48.2	33.9	6.9	27.0
Inside SMSA's	949,181	42.3	839,604	401,565	438,039	109,577	13,399	96,178	100.0	88.5	42.3	46.1	11.5	1.4	10.1
Kansas City, Mo.-Kans.[1]	404,507	18.0	371,787	-	371,787	32,720	6,608	26,112	100.0	91.9	-	91.9	8.1	1.6	6.5
Topeka	155,322	6.9	132,108	125,011	7,097	23,214	-	23,214	100.0	85.1	80.5	4.6	14.9	-	14.9
Wichita	389,352	17.3	335,709	276,554	59,155	53,643	6,791	46,852	100.0	86.2	71.0	15.2	13.8	1.7	12.0
Outside SMSA's	1,297,397	57.7	645,266	-	645,266	652,131	141,272	510,859	100.0	49.7	-	49.7	50.3	10.9	39.4
Kentucky	3,218,706	100.0	1,684,053	549,183	1,134,870	1,534,653	117,843	1,416,810	100.0	52.3	17.1	35.3	47.7	3.7	44.0
Inside SMSA's	1,288,024	40.0	1,132,230	549,183	583,047	155,794	3,585	152,209	100.0	87.9	42.6	45.3	12.1	0.3	11.8
Cincinnati, Ohio-Ky.-Ind.[1]	250,753	7.8	200,822	-	200,822	49,931	3,585	46,346	100.0	80.1	-	80.1	19.9	1.4	18.5
Evansville, Ind.-Ky.[1]	36,031	1.1	22,976	-	22,976	13,055	-	13,055	100.0	63.8	-	63.8	36.2	-	36.2
Huntington-Ashland, W.Va.-Ky.-Ohio[1]	52,376	1.6	37,853	29,245	8,608	14,523	-	14,523	100.0	72.3	55.8	16.4	27.7	-	27.7
Lexington	174,323	5.4	159,538	108,137	51,401	14,785	-	14,785	100.0	91.5	62.0	29.5	8.5	-	8.5
Louisville, Ky.-Ind.[1]	695,055	21.6	657,908	361,472	296,436	37,147	-	37,147	100.0	94.7	52.0	42.6	5.3	-	5.3
Owensboro	79,486	2.5	53,133	50,329	2,804	26,353	-	26,353	100.0	66.8	63.3	3.5	33.2	-	33.2
Outside SMSA's	1,930,682	60.0	551,823	-	551,823	1,378,859	114,258	1,264,601	100.0	28.6	-	28.6	71.4	5.9	65.5
Louisiana	3,641,306	100.0	2,406,150	1,142,809	1,263,341	1,235,156	139,250	1,095,906	100.0	66.1	31.4	34.7	33.9	3.8	30.1
Inside SMSA's	1,996,197	54.8	1,749,302	1,142,809	606,493	246,895	23,419	223,476	100.0	87.6	57.2	30.4	12.4	1.2	11.2
Baton Rouge	285,167	7.8	247,869	165,963	81,906	37,298	-	37,298	100.0	86.9	58.2	28.7	13.1	-	13.1
Lafayette	109,716	3.0	78,544	68,908	9,636	31,172	6,210	24,962	100.0	71.6	62.8	8.8	28.4	5.7	22.8
Lake Charles	145,415	4.0	108,713	77,998	30,715	36,702	5,380	31,322	100.0	74.8	53.6	21.1	25.2	3.7	21.5
Monroe	115,387	3.2	90,567	56,374	34,193	24,820	1,118	23,702	100.0	78.5	48.9	29.6	21.5	1.0	20.5
New Orleans	1,045,809	28.7	984,999	591,502	393,497	60,810	7,102	53,708	100.0	94.2	56.6	37.6	5.8	0.7	5.1
Shreveport	294,703	8.1	238,610	182,064	56,546	56,093	3,609	52,484	100.0	81.0	61.8	19.2	19.0	1.2	17.8
Outside SMSA's	1,645,109	45.2	656,848	-	656,848	988,261	115,831	872,430	100.0	39.9	-	39.9	60.1	7.0	53.0
Maine	992,048	100.0	504,157	129,266	374,891	487,891	84,910	402,981	100.0	50.8	13.0	37.8	49.2	8.6	40.6
Inside SMSA's	214,099	21.6	177,343	129,266	48,077	36,756	6,265	30,491	100.0	82.8	60.4	22.5	17.2	2.9	14.2
Lewiston-Auburn	72,474	7.3	67,407	64,150	3,257	5,067	1,475	3,592	100.0	93.0	88.5	4.5	7.0	2.0	5.0
Portland	141,625	14.3	109,936	65,116	44,820	31,689	4,790	26,899	100.0	77.6	46.0	31.6	22.4	3.4	19.0
Outside SMSA's	777,949	78.4	326,814	-	326,814	451,135	78,645	372,490	100.0	42.0	-	42.0	58.0	10.1	47.9
Maryland	3,922,399	100.0	3,003,935	905,759	2,098,176	918,464	88,586	829,878	100.0	76.6	23.1	53.5	23.4	2.3	21.2
Inside SMSA's	3,307,337	84.3	2,830,345	905,759	1,924,586	476,992	31,631	445,361	100.0	85.6	27.4	58.2	14.4	1.0	13.5
Baltimore	2,070,670	52.8	1,744,574	905,759	838,815	326,096	24,553	301,543	100.0	84.3	43.7	40.5	15.7	1.2	14.6
Washington, D.C.-Md.-Va.[1]	1,183,376	30.2	1,075,152	-	1,075,152	108,224	2,138	106,086	100.0	90.9	-	90.9	9.1	0.2	9.0
Wilmington, Del.-N.J.-Md.[1]	53,291	1.4	10,619	-	10,619	42,672	4,940	37,732	100.0	19.9	-	19.9	80.1	9.3	70.8
Outside SMSA's	615,062	15.7	173,590	-	173,590	441,472	56,955	384,517	100.0	28.2	-	28.2	71.8	9.3	62.5
Massachusetts	5,689,170	100.0	4,810,449	1,726,298	3,084,151	878,721	111,211	767,510	100.0	84.6	30.3	54.2	15.4	2.0	13.5
Inside SMSA's	4,817,915	84.7	4,356,426	1,726,298	2,630,128	461,489	40,268	421,221	100.0	90.4	35.8	54.6	9.6	0.8	8.7
Boston	2,753,700	48.4	2,608,407	641,071	1,967,336	145,293	9,831	135,462	100.0	94.7	23.3	71.4	5.3	0.4	4.9
Brockton	189,820	3.3	153,788	89,040	64,748	36,032	1,920	34,112	100.0	81.0	46.9	34.1	19.0	1.0	18.0
Fall River, Mass.-R.I.[1]	137,417	2.4	123,491	96,569	26,922	13,926	-	13,926	100.0	89.9	70.3	19.6	10.1	-	10.1
Fitchburg-Leominster	97,164	1.7	79,010	76,282	2,728	18,154	3,047	15,107	100.0	81.3	78.5	2.8	18.7	3.1	15.5
Lawrence-Haverhill, Mass.-N.H.[1]	205,641	3.6	182,438	113,035	69,403	23,203	-	23,203	100.0	88.7	55.0	33.7	11.3	-	11.3
Lowell	212,860	3.7	186,354	94,239	92,115	26,506	-	26,506	100.0	87.5	44.3	43.3	12.5	-	12.5
New Bedford	152,642	2.7	133,667	101,777	31,890	18,975	3,450	15,525	100.0	87.6	66.7	20.9	12.4	2.3	10.2
Pittsfield	79,727	1.4	66,261	57,020	9,241	13,466	2,208	11,258	100.0	83.1	71.5	11.6	16.9	2.8	14.1
Providence-Pawtucket-Warwick, R.I.-Mass.[1]	121,595	2.1	79,065	-	79,065	42,530	2,920	39,610	100.0	65.0	-	65.0	35.0	2.4	32.6
Springfield-Chicopee-Holyoke, Mass.-Conn.[1]	523,029	9.2	465,670	280,693	184,977	57,359	9,302	48,057	100.0	89.0	53.7	35.4	11.0	1.8	9.2
Worcester	344,320	6.1	278,275	176,572	101,703	66,045	7,590	58,455	100.0	80.8	51.3	29.5	19.2	2.2	17.0
Outside SMSA's	871,255	15.3	454,023	-	454,023	417,232	70,943	346,289	100.0	52.1	-	52.1	47.9	8.1	39.7
Michigan	8,875,083	100.0	6,553,773	2,468,063	4,085,710	2,321,310	247,370	2,073,940	100.0	73.8	27.8	46.0	26.2	2.8	23.4
Inside SMSA's	6,806,151	76.7	5,825,530	2,468,063	3,357,467	980,621	90,381	890,240	100.0	85.6	36.3	49.3	14.4	1.3	13.1
Ann Arbor	234,103	2.6	182,994	99,797	83,197	51,109	3,379	47,730	100.0	78.2	42.6	35.5	21.8	1.4	20.4
Bay City	117,339	1.3	78,352	49,449	28,903	38,987	3,239	35,748	100.0	66.8	42.1	24.6	33.2	2.8	30.5
Detroit	4,199,931	47.3	4,012,959	1,511,482	2,501,477	186,972	16,034	170,938	100.0	95.5	36.0	59.6	4.5	0.4	4.1
Flint	496,658	5.6	349,941	193,317	156,624	146,717	11,407	135,310	100.0	70.5	38.9	31.5	29.5	2.3	27.2
Grand Rapids	539,225	6.1	404,182	197,649	206,533	135,043	8,560	126,483	100.0	75.0	36.7	38.3	25.0	1.6	23.5

See footnote at end of table.

Table 41. **Population Inside and Outside Standard Metropolitan Statistical Areas by Urban and Rural Residence: 1970**—Continued

[For meaning of symbols, see text]

States SMSA's	Total		Urban			Rural			Percent distribution						
										Urban			Rural		
	Number	Per-cent	Total	Central cities	Other urban	Total	Places of 1,000 to 2,500	Other rural	Total	Total	Cen-tral cities	Other urban	Total	Places of 1,000 to 2,500	Other rural
Michigan--Con.															
Inside SMSA's--Con.															
Jackson	143,274	1.6	78,572	45,484	33,088	64,702	4,005	60,697	100.0	54.8	31.7	23.1	45.2	2.8	42.4
Kalamazoo	201,550	2.3	152,083	85,555	66,528	49,467	5,796	43,671	100.0	75.5	42.4	33.0	24.5	2.9	21.7
Lansing	378,423	4.3	263,028	131,546	131,482	115,395	13,040	102,355	100.0	69.5	34.8	34.7	30.5	3.4	27.0
Muskegon-Muskegon Heights	157,426	1.8	108,733	61,935	46,798	48,693	7,111	41,582	100.0	69.1	39.3	29.7	30.9	4.5	26.4
Saginaw	219,743	2.5	153,262	91,849	61,413	66,481	3,349	63,132	100.0	69.7	41.8	27.9	30.3	1.5	28.7
Toledo, Ohio-Mich	118,479	1.3	41,424	-	41,424	77,055	14,461	62,594	100.0	35.0	-	35.0	65.0	12.2	52.8
Outside SMSA's	2,068,932	23.3	728,343	-	728,243	1,340,689	156,989	1,183,700	100.0	35.2	-	35.2	64.8	7.6	57.2
Minnesota	3,804,971	100.0	2,527,308	928,411	1,598,897	1,277,663	194,259	1,083,404	100.0	66.4	24.4	42.0	33.6	5.1	28.5
Inside SMSA's	2,165,029	56.9	1,980,647	928,411	1,052,236	184,382	19,401	164,981	100.0	91.5	42.9	48.6	8.5	0.9	7.6
Duluth-Superior, Minn.-Wis.[1]	220,693	5.8	158,972	100,578	58,394	61,721	6,771	54,950	100.0	72.0	45.6	26.5	28.0	3.1	24.9
Fargo-Moorhead, N. Dak.-Minn.[1]	46,585	1.2	32,026	29,687	2,339	14,559	3,153	11,406	100.0	68.7	63.7	5.0	31.3	6.8	24.5
Minneapolis-St. Paul	1,813,847	47.7	1,730,243	744,380	985,863	83,404	7,335	76,069	100.0	95.4	41.0	54.4	4.6	0.4	4.2
Rochester	84,104	2.2	59,406	53,766	5,640	24,698	2,142	22,556	100.0	70.6	63.9	6.7	29.4	2.5	26.8
Outside SMSA's	1,639,942	43.1	548,661	-	546,661	1,093,281	174,858	918,423	100.0	33.3	-	33.3	66.7	10.7	56.0
Mississippi	2,216,912	100.0	986,642	243,245	743,397	1,230,270	116,017	1,114,253	100.0	44.5	11.0	33.5	55.5	5.2	50.3
Inside SMSA's	393,488	17.7	304,429	243,245	61,164	89,059	5,181	83,878	100.0	77.4	61.8	15.5	22.6	1.3	21.3
Biloxi-Gulfport	134,582	6.1	111,684	89,277	22,407	22,898	-	22,898	100.0	83.0	66.3	16.6	17.0	-	17.0
Jackson	258,906	11.7	192,745	153,968	38,777	66,161	5,181	60,980	100.0	74.4	59.5	15.0	25.6	2.0	23.6
Outside SMSA's	1,823,424	82.3	682,213	-	682,213	1,141,211	110,836	1,030,375	100.0	37.4	-	37.4	62.6	6.1	56.5
Missouri	4,676,501	100.0	3,277,662	1,375,686	1,901,976	1,398,839	175,225	1,223,614	100.0	70.1	29.4	40.7	29.9	3.7	26.2
Inside SMSA's	2,997,071	64.1	2,656,175	1,375,686	1,280,489	340,896	21,036	319,860	100.0	88.6	45.9	42.7	11.4	0.7	10.7
Columbia	80,911	1.7	62,849	58,804	4,045	18,062	-	18,062	100.0	77.7	72.7	5.0	22.3	-	22.3
Kansas City, Mo.-Kans.[1]	849,409	18.2	775,976	501,859	274,117	73,433	10,599	62,834	100.0	91.4	59.1	32.3	8.6	1.2	7.4
St. Joseph	86,915	1.9	75,940	72,691	3,249	10,975	-	10,975	100.0	87.4	83.6	3.7	12.6	-	12.6
St. Louis, Mo.-Ill.[1]	1,826,907	39.1	1,620,070	622,236	997,834	206,837	7,008	199,829	100.0	88.7	34.1	54.6	11.3	0.4	10.9
Springfield	152,929	3.3	121,340	120,096	1,244	31,589	3,429	28,160	100.0	79.3	78.5	0.8	20.7	2.2	18.4
Outside SMSA's	1,679,430	35.9	621,487	-	621,487	1,057,943	154,189	903,754	100.0	37.0	-	37.0	63.0	9.2	53.8
Montana	694,409	100.0	370,676	121,672	249,004	323,733	53,685	270,048	100.0	53.4	17.5	35.9	46.6	7.7	38.9
Inside SMSA's	169,171	24.4	146,556	121,672	24,884	22,615	-	22,615	100.0	86.7	71.9	14.7	13.3	-	13.4
Billings	87,367	12.6	75,651	61,581	14,070	11,716	-	11,716	100.0	86.6	70.5	16.1	13.4	-	13.4
Great Falls	81,804	11.8	70,905	60,091	10,814	10,899	-	10,899	100.0	86.7	73.5	13.2	13.3	-	13.3
Outside SMSA's	525,238	75.6	224,120	-	224,120	301,118	53,685	247,433	100.0	42.7	-	42.7	57.3	10.2	47.1
Nebraska	1,483,493	100.0	912,598	496,846	415,752	570,895	107,730	463,165	100.0	61.5	33.5	28.0	38.5	7.3	31.2
Inside SMSA's	634,260	42.8	588,292	496,846	91,446	45,968	6,545	39,423	100.0	92.8	78.3	14.4	7.2	1.0	6.2
Lincoln	167,972	11.3	153,443	149,518	3,925	14,529	1,152	13,377	100.0	91.4	89.0	2.3	8.8	0.7	8.0
Omaha, Nebr.-Iowa[1]	453,151	30.5	426,929	347,328	79,601	26,222	4,336	21,886	100.0	94.2	76.6	17.6	5.8	1.0	4.8
Sioux City, Iowa-Nebr.[1]	13,137	0.9	7,920	-	7,920	5,217	1,057	4,160	100.0	60.3	-	60.3	39.7	8.0	31.7
Outside SMSA's	849,233	57.2	324,306	-	324,306	524,927	101,185	423,742	100.0	38.2	-	38.2	61.8	11.9	40.9
Nevada	488,738	100.0	395,336	198,650	196,686	93,402	20,061	73,341	100.0	80.9	40.6	40.2	19.1	4.1	15.0
Inside SMSA's	394,356	80.7	357,986	198,650	159,336	36,370	2,414	33,956	100.0	90.8	50.4	40.4	9.2	0.6	8.6
Las Vegas	273,288	55.9	258,299	125,787	132,512	14,989	-	14,989	100.0	94.5	46.0	48.5	5.5	-	5.5
Reno	121,068	24.8	99,687	72,863	26,824	21,381	2,414	18,967	100.0	82.3	60.2	22.2	17.7	2.0	15.7
Outside SMSA's	94,382	19.3	37,350	-	37,350	57,032	17,647	39,385	100.0	39.6	-	39.6	60.4	18.7	41.7
New Hampshire	737,681	100.0	416,040	143,574	272,468	321,641	43,385	278,256	100.0	56.4	19.5	36.9	43.6	5.9	37.7
Inside SMSA's	201,893	27.3	173,691	143,574	30,117	28,002	3,575	24,427	100.0	86.1	71.2	14.9	13.9	1.8	12.1
Lawrence-Haverhill, Mass.-N.H.[1]	26,774	3.6	17,842	-	17,842	8,932	-	8,932	100.0	66.6	-	66.6	33.4	-	33.4
Manchester	108,461	14.7	94,888	87,754	7,134	13,573	3,575	9,998	100.0	87.5	80.9	6.6	12.5	3.3	9.2
Nashua	66,458	9.0	60,961	55,820	5,141	5,497	-	5,497	100.0	91.7	84.0	7.7	8.3	-	8.3
Outside SMSA's	535,988	72.7	242,349	-	242,349	293,639	39,810	253,829	100.0	45.2	-	45.2	54.8	7.4	47.4
New Jersey	7,168,164	100.0	6,373,405	1,166,781	5,206,624	794,759	72,412	722,347	100.0	88.9	16.3	72.6	11.1	1.0	10.1
Inside SMSA's	5,511,330	76.9	5,118,883	1,166,781	3,952,102	392,447	26,013	366,434	100.0	92.9	21.2	71.7	7.1	0.5	6.6
Allentown-Bethlehem-Easton, Pa.-N.J.[1]	73,879	1.0	43,257	-	43,257	30,682	1,411	29,211	100.0	58.6	-	58.6	41.4	1.9	39.5
Atlantic City	175,043	2.4	141,893	47,859	94,034	33,150	3,039	30,111	100.0	81.1	27.3	53.7	18.9	1.7	17.2
Jersey City	609,266	8.5	609,266	260,545	348,721	-	-	-	100.0	100.0	42.8	57.2	-	-	-
Newark	1,856,556	25.9	1,789,013	382,417	1,406,596	67,543	7,592	59,951	100.0	96.4	20.6	75.8	3.6	0.4	3.2
Paterson-Clifton-Passaic	1,358,794	19.0	1,338,360	282,385	1,055,975	20,434	1,505	18,929	100.0	98.5	20.8	77.7	1.5	0.1	1.4
Philadelphia, Pa.-N.J.[1]	952,104	13.3	820,120	-	820,120	131,984	5,079	126,905	100.0	86.1	-	86.1	13.9	0.5	13.3
Trenton	303,968	4.2	255,352	104,638	150,714	48,616	2,271	46,345	100.0	84.0	34.4	49.6	16.0	0.7	15.2
Vineland-Millville-Bridgeton	121,374	1.7	88,937	88,937	-	32,437	3,524	28,913	100.0	73.3	73.3	-	26.7	2.9	23.8
Wilmington, Del.-N.J.-Md.[1]	60,346	0.8	32,685	-	32,685	27,661	1,592	26,069	100.0	54.2	-	54.2	45.8	2.6	43.2
Outside SMSA's	1,656,834	23.1	1,254,522	-	1,254,522	402,312	46,399	355,913	100.0	75.7	-	75.7	24.3	2.8	21.5

See footnote at end of table.

Table 41. Population Inside and Outside Standard Metropolitan Statistical Areas by Urban and Rural Residence: 1970—Continued

[For meaning of symbols, see text]

States SMSA's	Total		Urban			Rural			Percent distribution						
										Urban			Rural		
	Number	Per-cent	Total	Central cities	Other urban	Total	Places of 1,000 to 2,500	Other rural	Total	Total	Cen-tral cities	Other rural	Total	Places of 1,000 to 2,500	Other rural
New Mexico	1,016,000	100.0	708,775	243,751	465,024	307,225	35,231	271,994	100.0	69.8	24.0	45.8	30.2	3.5	26.8
Inside SMSA's	315,774	31.1	297,451	243,751	53,700	18,323	1,080	17,243	100.0	94.2	77.2	17.0	5.8	0.3	5.5
Albuquerque	315,774	31.1	297,451	243,751	53,700	18,323	1,080	17,243	100.0	94.2	77.2	17.0	5.8	0.3	5.5
Outside SMSA's	700,226	68.9	411,324	-	411,324	288,902	34,151	254,751	100.0	58.7	-	58.7	41.3	4.9	36.4
New York	18,236,967	100.0	15,602,486	9,311,018	6,291,468	2,634,481	367,645	2,266,836	100.0	85.6	51.1	34.5	14.4	2.0	12.4
Inside SMSA's	15,771,192	86.5	14,605,190	9,311,018	5,294,172	1,166,002	132,983	1,033,019	100.0	92.6	59.0	33.6	7.4	0.8	6.6
Albany-Schenectady-Troy	721,910	4.0	542,815	256,558	286,257	179,095	18,087	161,008	100.0	75.2	35.5	39.7	24.8	2.5	22.3
Binghamton, N.Y.-Pa.[1]	268,328	1.5	177,637	64,123	113,514	90,691	5,794	84,897	100.0	66.2	23.9	42.3	33.8	2.2	31.6
Buffalo	1,349,211	7.4	1,148,111	462,768	685,343	201,100	23,184	177,916	100.0	85.1	34.3	50.8	14.9	1.7	13.2
New York	11,571,899	63.5	11,389,225	7,894,862	3,494,363	182,674	32,701	149,973	100.0	98.4	68.2	30.2	1.6	0.3	1.3
Rochester	882,667	4.8	672,476	296,233	376,243	210,191	25,046	185,145	100.0	76.2	33.6	42.6	23.8	2.8	21.0
Syracuse	636,507	3.5	452,949	197,208	255,741	183,558	17,137	166,421	100.0	71.2	31.0	40.2	28.8	2.7	26.1
Utica-Rome	340,670	1.9	221,977	139,266	82,711	118,693	11,034	107,659	100.0	65.2	40.9	24.3	34.8	3.2	31.6
Outside SMSA's	2,465,775	13.5	997,296	-	997,296	1,468,479	234,662	1,233,817	100.0	40.4	-	40.4	59.6	9.5	50.0
North Carolina	5,082,059	100.0	2,285,168	955,746	1,329,422	2,796,891	246,084	2,550,807	100.0	45.0	18.8	26.2	55.0	4.8	50.2
Inside SMSA's	1,896,423	37.3	1,270,354	955,746	314,608	626,069	54,140	571,929	100.0	67.0	50.4	16.6	33.0	2.9	30.2
Asheville	145,056	2.9	75,655	57,681	17,974	69,401	7,464	61,937	100.0	52.2	39.8	12.4	47.8	5.1	42.7
Charlotte	409,370	8.1	296,312	241,178	55,134	113,058	7,435	105,623	100.0	72.4	58.9	13.5	27.6	1.8	25.8
Durham	190,388	3.7	129,773	95,438	34,335	60,615	5,593	55,022	100.0	68.2	50.1	18.0	31.8	2.9	28.9
Fayetteville	212,042	4.2	161,370	53,510	107,860	50,672	1,721	48,951	100.0	76.1	25.2	50.9	23.0	0.8	23.1
Greensboro--Winston-Salem--High Point	603,895	11.9	390,586	340,193	50,393	213,309	20,383	192,926	100.0	64.7	56.3	8.3	35.3	3.4	31.9
Raleigh	228,453	4.5	159,013	121,577	37,436	69,440	5,960	63,480	100.0	69.6	53.2	16.4	30.4	2.6	27.8
Wilmington	107,219	2.1	57,645	46,169	11,476	49,574	5,584	43,990	100.0	53.8	43.1	10.7	46.2	5.2	41.0
Outside SMSA's	3,185,636	62.7	1,014,814	-	1,014,814	2,170,822	191,944	1,978,878	100.0	31.9	-	31.9	68.1	6.0	62.1
North Dakota	617,761	100.0	273,442	53,365	220,077	344,319	65,434	278,885	100.0	44.3	8.6	35.6	55.7	10.6	45.1
Inside SMSA's	73,653	11.9	58,581	53,365	5,216	15,072	1,485	13,587	100.0	79.5	72.5	7.1	20.5	2.0	18.4
Fargo-Moorhead, N.Dak.-Minn.[1]	73,653	11.9	58,581	53,365	5,216	15,072	1,485	13,587	100.0	79.5	72.5	7.1	20.5	2.0	18.4
Outside SMSA's	544,108	88.1	214,861	-	214,861	329,247	63,949	265,298	100.0	39.5	-	39.5	60.5	11.8	48.8
Ohio	10,652,017	100.0	8,025,775	3,429,005	4,596,770	2,626,242	278,602	2,347,640	100.0	75.3	32.2	43.2	24.7	2.6	22.0
Inside SMSA's	8,272,512	77.7	6,998,338	3,429,005	3,569,333	1,274,174	107,717	1,166,457	100.0	84.6	41.5	43.1	15.4	1.3	14.1
Akron	679,239	6.4	567,872	275,425	292,447	111,367	5,736	105,631	100.0	83.6	40.5	43.1	16.4	0.8	15.6
Canton	372,210	3.5	273,272	110,053	163,219	98,938	12,548	86,390	100.0	73.4	29.6	43.9	26.6	3.4	23.2
Cincinnati, Ohio-Ky.-Ind.[1]	1,104,668	10.4	952,973	452,524	500,449	151,695	12,507	139,188	100.0	86.3	41.0	45.3	13.7	1.1	12.6
Cleveland	2,064,194	19.4	1,940,897	750,903	1,189,994	123,297	10,797	112,500	100.0	94.0	36.4	57.6	6.0	0.5	5.5
Columbus	916,228	8.6	824,695	539,677	285,018	91,533	5,209	86,324	100.0	90.0	58.9	31.1	10.0	0.6	9.4
Dayton	850,266	8.0	704,593	243,601	460,992	145,673	12,702	132,971	100.0	82.9	28.6	54.2	17.1	1.5	15.6
Hamilton-Middletown	226,207	2.1	175,697	116,632	59,065	50,510	1,661	48,849	100.0	77.7	51.6	26.1	22.3	0.7	21.6
Huntington-Ashland, W.Va.-Ky.-Ohio[1]	56,868	0.5	29,250	-	29,250	27,618	-	27,618	100.0	51.4	-	51.4	48.6	-	48.6
Lima	171,472	1.6	94,677	53,734	40,943	76,795	8,999	67,796	100.0	55.2	31.3	23.9	44.8	5.2	39.5
Lorain-Elyria	256,843	2.4	220,010	131,612	88,398	36,833	4,921	31,912	100.0	85.7	51.2	34.4	14.3	1.9	12.4
Mansfield	129,997	1.2	90,418	55,047	35,371	39,579	3,918	35,661	100.0	69.6	42.3	27.2	30.4	3.0	27.4
Springfield	157,115	1.5	105,628	81,926	23,702	51,487	3,429	48,058	100.0	67.2	52.1	15.1	32.8	2.2	30.6
Steubenville-Weirton, Ohio-W.Va.[1]	96,193	0.9	55,967	30,771	25,196	40,226	6,527	33,699	100.0	58.2	32.0	26.2	41.8	6.8	35.0
Toledo, Ohio-Mich.[1]	574,092	5.4	504,590	383,818	120,772	69,502	6,301	63,201	100.0	87.9	66.9	21.0	12.1	1.1	11.0
Wheeling, W.Va.-Ohio[1]	80,917	0.8	41,285	-	41,285	39,632	5,058	34,574	100.0	51.0	-	51.0	49.0	6.3	42.7
Youngstown-Warren	536,003	5.0	416,514	203,282	213,232	119,489	7,404	112,085	100.0	77.7	37.9	39.8	22.3	1.4	20.9
Outside SMSA's	2,379,505	22.3	1,027,437	-	1,027,437	1,352,068	•170,885	1,181,183	100.0	43.2	-	43.2	56.8	7.2	49.6
Oklahoma	2,559,229	100.0	1,740,137	761,540	978,597	819,092	150,875	668,217	100.0	68.0	29.8	38.2	32.0	5.9	26.1
Inside SMSA's	1,281,485	50.1	1,127,573	761,540	366,033	153,912	23,863	130,049	100.0	88.0	59.4	28.6	12.0	1.9	10.1
Fort Smith, Ark.-Okla.[1]	55,507	2.2	15,052	-	15,052	40,455	9,052	31,403	100.0	27.1	-	27.1	72.9	16.3	56.6
Lawton	108,144	4.2	95,687	74,470	21,217	12,457	1,106	11,351	100.0	88.5	68.9	19.6	11.5	1.0	10.5
Oklahoma City	640,889	25.0	607,459	356,661	250,798	33,430	5,753	27,677	100.0	94.8	55.7	39.1	5.2	0.9	4.3
Tulsa	476,945	18.6	409,375	330,409	78,966	67,570	7,952	59,618	100.0	85.8	69.3	16.6	14.2	1.7	12.5
Outside SMSA's	1,277,744	49.9	612,564	-	612,564	665,180	127,012	538,168	100.0	47.9	-	47.9	52.1	9.9	42.1
Oregon	2,091,385	100.0	1,402,704	527,261	875,443	688,681	84,432	604,249	100.0	67.1	25.2	41.9	32.9	4.0	28.9
Inside SMSA's	1,280,691	61.2	1,034,724	527,261	507,463	245,967	19,378	226,589	100.0	80.8	41.2	39.6	19.2	1.5	17.7
Eugene	213,358	10.2	148,681	76,346	72,335	64,677	7,195	57,482	100.0	69.7	35.8	33.9	30.3	3.4	26.9
Portland, Oreg.-Wash.[1]	880,675	42.1	763,844	382,619	381,225	116,831	9,404	107,427	100.0	86.7	43.4	43.3	13.3	1.1	12.2
Salem	186,658	8.9	122,199	68,296	53,903	64,459	2,779	61,680	100.0	65.5	36.6	28.9	34.5	1.5	33.0
Outside SMSA's	810,694	38.8	367,980	-	367,980	442,714	65,054	377,660	100.0	45.4	-	45.4	54.6	8.0	46.6
Pennsylvania	11,793,909	100.0	8,430,410	3,372,377	5,058,033	3,363,499	454,597	2,908,902	100.0	71.5	28.6	42.9	28.5	3.9	24.7
Inside SMSA's	9,365,552	79.4	7,526,247	3,372,377	4,153,870	1,839,305	226,063	1,613,242	100.0	80.4	36.0	44.4	19.6	2.4	17.2
Allentown-Bethlehem-Easton, Pa.-N.J.[1]	469,672	4.0	357,911	212,469	145,442	111,761	14,074	97,687	100.0	76.2	45.2	31.0	23.8	3.0	20.8
Altoona	135,356	1.1	91,678	62,900	28,778	43,678	7,703	35,975	100.0	67.7	46.5	21.3	32.3	5.7	28.6
Binghamton, N.Y.-Pa.[1]	34,344	0.3	-	-	-	34,344	9,289	25,055	100.0	-	-	-	100.0	27.0	73.0
Erie	263,654	2.2	197,659	129,231	68,428	65,995	7,060	58,935	100.0	75.0	49.0	26.0	25.0	2.7	22.4
Harrisburg	410,626	3.5	275,387	68,061	207,326	135,239	18,183	117,056	100.0	67.1	16.6	50.5	32.9	4.4	28.5
Johnstown	262,822	2.2	126,409	42,476	83,933	136,413	25,367	111,046	100.0	48.1	16.2	31.9	51.9	9.7	42.3

See footnote at end of table.

Table 41. Population Inside and Outside Standard Metropolitan Statistical Areas by Urban and Rural Residence: 1970—Continued

[For meaning of symbols, see text]

States SMSA's	Total: Number	Total: Percent	Urban: Total	Urban: Central cities	Urban: Other urban	Rural: Total	Rural: Places of 1,000 to 2,500	Rural: Other rural	Percent distribution: Total	Percent distribution: Urban: Total	Percent distribution: Urban: Central cities	Percent distribution: Urban: Other urban	Percent distribution: Rural: Total	Percent distribution: Rural: Places of 1,000 to 2,500	Percent distribution: Rural: Other rural
Pennsylvania--Con.															
Inside SMSA's--Con.															
Lancaster	319,693	2.7	173,573	57,690	115,883	146,120	14,019	132,101	100.0	54.3	18.0	36.2	45.7	4.4	41.3
Philadelphia, Pa.-N.J.[1]	3,865,810	32.8	3,479,443	1,948,609	1,530,834	386,367	31,896	354,471	100.0	90.0	50.4	39.6	10.0	0.8	9.2
Pittsburgh	2,401,245	20.4	1,998,378	520,117	1,478,261	402,867	49,076	353,791	100.0	83.2	21.7	61.6	16.8	2.0	14.7
Reading	296,382	2.5	188,546	87,643	100,903	107,836	12,785	95,051	100.0	63.6	29.6	34.0	36.4	4.3	32.1
Scranton	234,107	2.0	204,205	103,564	100,641	29,902	2,712	27,190	100.0	87.2	44.2	43.0	12.8	1.2	11.6
Wilkes-Barre--Hazleton	342,301	2.9	267,507	89,282	178,225	74,794	12,644	62,150	100.0	78.1	26.1	52.1	21.9	3.7	18.2
York	329,540	2.8	165,551	50,335	115,216	163,989	21,255	142,734	100.0	50.2	15.3	35.0	49.8	6.4	43.3
Outside SMSA's	2,428,357	20.6	904,163	-	904,163	1,524,194	228,534	1,295,660	100.0	37.2	-	37.2	62.8	9.4	53.4
Rhode Island	946,725	100.0	824,930	339,891	485,039	121,795	7,385	114,410	100.0	87.1	35.9	51.2	12.9	0.8	12.1
Inside SMSA's	801,745	84.7	741,559	339,891	401,868	60,186	3,167	57,019	100.0	92.5	42.4	50.1	7.5	0.4	7.1
Fall River, Mass.-R.I.[1]	12,559	1.3	7,388	-	7,388	5,171	-	5,171	100.0	58.8	-	58.8	41.2	-	41.2
Providence-Pawtucket-Warwick, R.I.-Mass.[1]	789,186	83.4	734,171	339,891	394,280	55,015	3,167	51,848	100.0	93.0	43.1	50.0	7.0	0.4	6.6
Outside SMSA's	144,980	15.3	83,371	-	83,371	61,609	4,218	57,391	100.0	57.5	-	57.5	42.5	2.9	39.6
South Carolina	2,590,516	100.0	1,232,195	241,695	990,500	1,358,321	129,954	1,228,367	100.0	47.6	9.3	38.2	52.4	5.0	47.4
Inside SMSA's	1,017,254	39.3	705,693	241,695	463,998	311,561	24,989	286,572	100.0	69.4	23.8	45.6	30.6	2.5	28.2
Augusta, Ga.-S.C.[1]	91,023	3.5	40,854	-	40,854	50,169	8,709	41,460	100.0	44.9	-	44.9	55.1	9.6	45.5
Charleston	303,849	11.7	228,399	66,945	161,454	75,450	4,977	70,473	100.0	75.2	22.0	53.1	24.8	1.6	23.2
Columbia	322,880	12.5	245,449	113,542	131,907	77,431	3,341	74,090	100.0	76.0	35.2	40.9	24.0	1.0	22.9
Greenville	299,502	11.6	190,991	61,208	129,783	108,511	7,962	100,549	100.0	63.8	20.4	43.3	36.2	2.7	33.6
Outside SMSA's	1,573,262	60.7	526,502	-	526,502	1,046,760	104,965	941,795	100.0	33.5	-	33.5	66.5	6.7	59.9
South Dakota	665,507	100.0	296,628	72,488	224,140	368,879	53,156	315,723	100.0	44.6	10.9	33.7	55.4	8.0	47.4
Inside SMSA's	95,209	14.3	75,146	72,488	2,658	20,063	3,422	16,641	100.0	78.9	76.1	2.8	21.1	3.6	17.5
Sioux Falls	95,209	14.3	75,146	72,488	2,658	20,063	3,422	16,641	100.0	78.9	76.1	2.8	21.1	3.6	17.5
Outside SMSA's	570,298	85.7	221,482	-	221,482	348,816	49,734	299,082	100.0	38.8	-	38.8	61.2	8.7	52.4
Tennessee	3,923,687	100.0	2,305,307	1,353,336	951,971	1,618,380	122,703	1,495,677	100.0	58.8	34.5	24.3	41.2	3.1	38.1
Inside SMSA's	1,917,695	48.9	1,613,135	1,353,336	259,799	304,560	9,704	294,856	100.0	84.1	70.6	13.5	15.9	0.5	15.4
Chattanooga, Tenn.-Ga.[1]	254,236	6.5	205,233	119,082	86,151	49,003	-	49,003	100.0	80.7	46.8	33.9	19.3	-	19.3
Knoxville	400,337	10.2	251,225	174,587	76,638	149,112	5,871	143,241	100.0	62.8	43.6	19.1	37.2	1.5	35.8
Memphis, Tenn.-Ark.[1]	722,014	18.4	679,776	623,497	56,279	42,238	1,349	40,989	100.0	94.1	86.4	7.8	5.9	0.2	5.7
Nashville-Davidson	541,108	13.8	476,901	436,170	40,731	64,207	2,484	61,723	100.0	88.1	80.6	7.5	11.9	0.5	11.4
Outside SMSA's	2,005,992	51.1	692,172	-	692,172	1,313,820	112,999	1,200,821	100.0	34.5	-	34.5	65.5	5.6	59.9
Texas	11,196,730	100.0	8,920,946	5,394,954	3,525,992	2,275,784	389,330	1,886,454	100.0	79.7	48.2	31.5	20.3	3.5	16.8
Inside SMSA's	8,234,458	73.5	7,422,116	5,394,954	2,027,162	812,342	108,542	703,800	100.0	90.1	65.5	24.6	9.9	1.3	8.5
Abilene	113,959	1.0	100,936	89,653	11,283	13,023	2,163	10,860	100.0	88.6	78.7	9.9	11.4	1.9	9.5
Amarillo	144,396	1.3	135,343	127,010	8,333	9,053	-	9,053	100.0	93.7	88.0	5.8	6.3	-	6.3
Austin	295,516	2.6	264,499	251,808	12,691	31,017	1,488	29,529	100.0	89.5	85.2	4.3	10.5	0.5	10.0
Beaumont-Port Arthur-Orange	315,943	2.8	279,539	197,747	81,792	36,404	3,776	32,628	100.0	88.5	62.6	25.9	11.5	1.2	10.3
Brownsville-Harlingen-San Benito	140,368	1.3	108,805	101,201	7,604	31,563	3,930	27,633	100.0	77.5	72.1	5.4	22.5	2.8	19.7
Bryan-College Station	57,978	0.5	51,395	51,395	-	6,583	-	6,583	100.0	88.6	88.6	-	11.4	-	11.4
Corpus Christi	284,832	2.5	253,606	204,525	49,081	31,226	9,649	21,377	100.0	89.0	71.8	17.2	11.0	3.5	7.5
Dallas	1,555,950	13.9	1,448,330	844,401	603,929	107,620	28,612	79,008	100.0	93.1	54.3	38.8	6.9	1.8	5.1
El Paso	359,291	3.2	344,938	322,261	22,677	14,353	3,742	10,611	100.0	96.0	89.7	6.3	4.0	1.0	3.0
Fort Worth	762,086	6.8	716,538	393,476	323,062	45,548	8,071	37,477	100.0	94.0	51.6	42.4	6.0	1.1	4.9
Galveston-Texas City	169,812	1.5	151,744	100,309	51,435	18,068	1,536	16,532	100.0	89.4	59.1	30.3	10.6	0.9	9.7
Houston	1,985,031	17.7	1,786,753	1,231,394	555,359	198,278	14,056	184,222	100.0	90.0	62.0	28.0	10.0	0.7	9.3
Laredo	72,859	0.7	70,197	69,024	1,173	2,662	-	2,662	100.0	96.3	94.7	1.6	3.7	-	3.7
Lubbock	179,295	1.6	159,967	149,101	10,866	19,328	4,158	15,170	100.0	89.2	83.2	6.1	10.8	2.3	8.5
McAllen-Pharr-Edinburg	181,535	1.6	134,521	70,628	63,893	47,014	3,761	43,253	100.0	74.1	38.9	35.2	25.9	2.1	23.8
Midland	65,433	0.6	60,371	59,463	908	5,062	-	5,062	100.0	92.3	90.9	1.4	7.7	-	7.7
Odessa	91,805	0.8	81,645	78,380	3,265	10,160	-	10,160	100.0	88.9	85.4	3.6	11.1	-	11.1
San Angelo	71,047	0.6	63,884	63,884	-	7,163	-	7,163	100.0	89.9	89.9	-	10.1	-	10.1
San Antonio	864,014	7.7	808,229	654,153	154,076	55,785	1,383	54,402	100.0	93.5	75.7	17.8	6.5	0.2	6.3
Sherman-Denison	83,225	0.7	58,270	53,984	4,286	24,955	5,432	19,523	100.0	70.0	64.9	5.1	30.0	6.5	23.5
Texarkana, Tex.-Ark.[1]	67,813	0.6	43,132	30,497	12,635	24,681	3,304	21,377	100.0	63.6	45.0	18.6	36.4	4.9	31.5
Tyler	97,096	0.9	59,781	57,770	2,011	37,315	4,616	32,699	100.0	61.6	59.5	2.1	38.4	4.8	33.7
Waco	147,553	1.3	123,208	95,326	27,882	24,345	5,895	18,450	100.0	83.5	64.6	18.9	16.5	4.0	12.5
Wichita Falls	127,621	1.1	116,485	97,564	18,921	11,136	2,770	8,366	100.0	91.3	76.4	14.8	8.7	2.2	6.6
Outside SMSA's	2,962,272	26.5	1,498,830	-	1,498,830	1,463,442	280,788	1,182,654	100.0	50.6	-	50.6	49.4	9.5	39.9
Utah	1,059,273	100.0	851,472	324,223	527,249	207,801	66,090	141,711	100.0	80.4	30.6	49.8	19.6	6.2	13.4
Inside SMSA's	821,689	77.6	752,149	324,223	427,926	69,540	15,865	53,675	100.0	91.5	39.5	52.1	8.5	1.9	6.5
Ogden	126,278	11.9	110,279	69,478	40,801	15,999	3,571	12,428	100.0	87.3	55.0	32.3	12.7	2.8	9.8
Provo-Orem	137,776	13.0	120,554	78,860	41,694	17,222	5,344	11,878	100.0	87.5	57.2	30.3	12.5	3.9	8.6
Salt Lake City	557,635	52.6	521,316	175,885	345,431	36,319	6,950	29,369	100.0	93.5	31.5	61.9	6.5	1.2	5.3
Outside SMSA's	237,584	22.4	99,323	-	99,323	138,261	50,225	88,036	100.0	41.8	-	41.8	58.2	21.1	37.1

See footnote at end of table.

Table 41. Population Inside and Outside Standard Metropolitan Statistical Areas by Urban and Rural Residence: 1970—Continued

[For meaning of symbols, see text]

States SMSA's	Total		Urban			Rural			Percent distribution						
										Urban			Rural		
	Number	Percent	Total	Central cities	Other urban	Total	Places of 1,000 to 2,500	Other rural	Total	Total	Central cities	Other urban	Total	Places of 1,000 to 2,500	Other rural
Vermont	444,330	100.0	142,889	-	142,889	301,441	38,769	262,672	100.0	32.2	-	32.2	67.8	8.7	59.1
Inside SMSA's	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Outside SMSA's	444,330	100.0	142,889	-	142,889	301,441	38,769	262,672	100.0	32.2	-	32.2	67.8	8.7	59.1
Virginia	4,648,494	100.0	2,934,841	1,124,889	1,809,952	1,713,653	98,299	1,615,354	100.0	63.1	24.2	38.9	36.9	2.1	34.8
Inside SMSA's	2,846,034	61.2	2,502,373	1,124,889	1,377,484	343,661	6,639	337,022	100.0	87.9	39.5	48.4	12.1	0.2	11.8
Lynchburg	123,474	2.7	73,028	54,083	18,945	50,446	2,145	48,301	100.0	59.1	43.8	15.3	40.9	1.7	39.1
Newport News-Hampton	292,159	6.3	266,863	258,956	7,907	25,296	-	25,296	100.0	91.3	88.6	2.7	8.7	-	8.7
Norfolk-Portsmouth	680,600	14.6	668,259	418,914	249,345	12,341	-	12,341	100.0	98.2	61.6	36.6	1.8	-	1.8
Petersburg-Colonial Heights	128,809	2.8	96,622	51,200	45,422	32,187	-	32,187	100.0	75.0	39.7	35.3	25.0	-	25.0
Richmond	518,319	11.2	429,048	249,621	179,427	89,271	829	88,442	100.0	82.8	48.2	34.6	17.2	0.2	17.1
Roanoke	181,436	3.9	156,621	92,115	84,506	24,815	-	24,815	100.0	86.3	50.8	35.6	13.7	-	13.7
Washington, D.C.-Md.-Va.[1]	921,237	19.8	811,932	-	811,932	109,305	3,665	105,640	100.0	88.1	-	88.1	11.9	0.4	11.5
Outside SMSA's	1,802,460	38.8	432,468	-	432,468	1,369,992	91,660	1,278,332	100.0	24.0	-	24.0	76.0	5.1	70.9
Washington	3,409,169	100.0	2,476,468	909,550	1,566,918	932,701	112,736	819,965	100.0	72.6	26.7	46.0	27.4	3.3	24.1
Inside SMSA's	2,248,837	66.0	1,926,951	809,550	1,017,401	321,886	26,927	294,959	100.0	85.7	40.4	45.2	14.3	1.2	13.1
Portland, Oreg.-Wash.[1]	128,454	3.8	82,348	-	82,348	46,106	2,565	43,541	100.0	64.1	-	64.1	35.9	2.0	33.9
Seattle-Everett	1,421,869	41.7	1,259,775	584,453	675,322	162,094	11,149	150,945	100.0	88.6	41.1	47.5	11.4	0.8	10.6
Spokane	287,487	8.4	246,261	170,516	75,745	41,226	8,142	35,084	100.0	85.7	59.3	26.3	14.3	2.1	12.2
Tacoma	411,027	12.1	338,567	154,581	183,986	72,460	7,071	65,389	100.0	82.4	37.6	44.8	17.6	1.7	15.9
Outside SMSA's	1,160,332	34.0	549,517	-	549,517	610,815	85,811	525,004	100.0	47.4	-	47.4	52.6	7.4	45.2
West Virginia	1,744,237	100.0	679,491	221,139	458,352	1,064,746	129,246	935,500	100.0	39.0	12.7	26.3	61.0	7.4	53.6
Inside SMSA's	545,243	31.3	357,211	221,139	136,072	188,032	17,253	170,779	100.0	65.5	40.6	25.0	34.5	3.2	31.3
Charleston	229,515	13.2	157,085	71,505	85,580	72,430	3,107	69,323	100.0	68.4	31.2	37.3	31.6	1.4	30.2
Huntington-Ashland, W.Va.-Ky.-Ohio[1]	144,499	8.3	85,017	74,315	10,702	59,482	6,294	53,188	100.0	58.8	51.4	7.4	41.2	4.4	36.8
Steubenville-Weirton, Ohio-W.Va.[1]	69,434	4.0	40,844	27,131	13,713	28,590	4,165	24,425	100.0	58.8	39.1	19.7	41.2	6.0	35.2
Wheeling, W.Va.-Ohio[1]	101,795	5.8	74,265	48,188	26,077	27,530	3,687	23,843	100.0	73.0	47.3	25.6	27.0	3.6	23.4
Outside SMSA's	1,198,994	68.7	322,280	-	322,280	876,714	111,993	764,721	100.0	26.9	-	26.9	73.1	9.3	63.8
Wisconsin	4,417,731	100.0	2,910,418	1,345,887	1,564,531	1,507,313	217,993	1,289,320	100.0	65.9	30.5	35.4	34.1	4.9	29.2
Inside SMSA's	2,542,975	57.6	2,161,990	1,345,887	816,103	380,965	54,049	326,936	100.0	85.0	52.9	32.1	15.0	2.1	12.9
Appleton-Oshkosh	276,891	6.3	195,308	110,364	84,944	81,583	8,778	72,805	100.0	70.5	39.9	30.7	29.5	3.2	26.3
Duluth-Superior, Minn.-Wis.[1]	44,657	1.0	32,713	32,237	476	11,944	-	11,944	100.0	73.3	72.2	1.1	26.7	-	26.7
Green Bay	158,244	3.6	129,105	87,809	41,296	29,139	4,101	25,038	100.0	81.6	55.5	26.1	18.4	2.6	15.8
Kenosha	117,917	2.7	84,262	78,805	5,457	33,655	6,854	26,601	100.0	71.5	66.8	4.6	28.5	5.8	22.7
La Crosse	80,468	1.8	60,231	51,153	9,078	20,237	3,261	16,976	100.0	74.9	63.6	11.3	25.1	4.1	21.1
Madison	290,272	6.6	224,026	173,258	50,768	66,246	15,719	50,527	100.0	77.2	59.7	17.5	22.8	5.4	17.4
Milwaukee	1,403,688	31.8	1,306,293	717,099	589,194	97,395	10,328	87,067	100.0	93.1	51.1	42.0	6.9	0.7	6.2
Racine	170,838	3.9	130,052	95,162	34,890	40,786	5,008	35,778	100.0	76.1	55.7	20.4	23.9	2.9	20.9
Outside SMSA's	1,874,756	42.4	748,428	-	748,428	1,126,328	163,944	962,384	100.0	39.9	-	39.9	60.1	8.7	51.3
Wyoming	332,416	100.0	201,111	-	201,111	131,305	26,370	104,935	100.0	60.5	-	60.5	39.5	7.9	31.6
Inside SMSA's	-	-	-	-	-	-	-	-	100.0	-	-	-	-	-	-
Outside SMSA's	332,416	100.0	201,111	-	201,111	131,305	26,370	104,935	100.0	60.5	-	60.5	39.5	7.9	31.6

[1]Part in State only; for entire area see table 32 of the U.S. Summary.

Ref. 4

RECENT DEVELOPMENTS IN THE SOUTHERN CALIFORNIA USED NEWSPAPER MARKET

1 - RECENT DEVELOPMENTS

Since our report was completed in late July, new information has become available on the Southern California used newspaper market. These recent developments are documented in the following sections:

- Foreign demand
- Domestic prices
- Domestic supply.

FOREIGN DEMAND

At the end of July, Department of Commerce data on export volume were available only through April. Exports of waste paper and used newspaper from Southern California increased dramatically in the May through July period according to Department of Commerce data. Korea, the major factor in past increases, was again largely responsible for this recent increase. Furthermore, Taiwan recently advertised in a major metropolitan newspaper for a substantial purchase of used newspaper, indicating that a surge in Taiwanese demand on the United States may be imminent.

- Exports have increased over the record levels of the first four months of 1973. Exports of waste paper and used newspaper from May through July have increased 43 percent and 50 percent respectively from the record levels experienced in January through April 1973. Moreover, exports for the month of July are greater than for any month during 1973 with the exception of May.

EXPORTS OF WASTE PAPER AND USED NEWSPAPER FROM SOUTHERN CALIFORNIA (TONS)

	1972 MONTHLY AVERAGE	1973 JAN-APR AVERAGE	1973 MAY-JULY AVERAGE	1973 7 MONTHS AVERAGE
Waste Paper	4,980	11,190*	16,068	13,280
Used Newspaper	2,240	5,610*	8,407	6,808

* — As indicated in McKinsey August 1973 Report, Analyzing the Supply/Demand Conditions in the Southern California Used Newspaper Market.

Sources: Waste paper tonnage was obtained from U.S. Department of Commerce report; Used newspaper tonnage is based on waste paper data and average prices.

Thus, waste paper exports have increased 166 percent and used newspaper 205 percent during the first 7 months of 1973 over 1972 monthly averages. Moreover, present export demand for used newspaper equals about 30 percent of current Southern California supply.

¶ Korea has continued to be the major factor in foreign demand. Korean exports of waste paper and used newspaper increased 67 percent in the May-July period over the first 4 months of the year. And, used newspaper exports in 1973 to Korea from Southern California are more than five times the level experienced in 1972.

EXPORTS TO KOREA OF WASTE PAPER AND USED NEWSPAPER FROM SOUTHERN CALIFORNIA (TONS)

	1972 MONTHLY AVERAGE	1973		
		JAN-APR AVERAGE	MAY-JUL AVERAGE	7 MONTHS AVERAGE
Wastepaper	1,190	4,895	8,170	6,300
Used Newspaper	890	3,675	6,128	4,724

Source: Waste paper tonnage was obtained from U.S. Department of Commerce report; Used newspaper tonnage is based on waste paper data and average price.

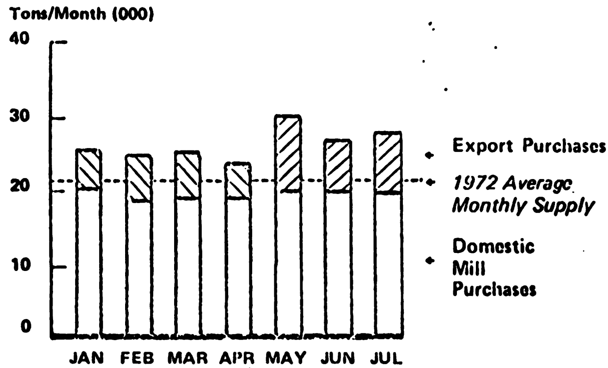
Furthermore, Korean demand now accounts for almost 70 percent of Southern California used newspaper exports.

¶ Taiwan appears to be attempting to make substantial purchases in the United States. In late September, an advertisement for 500,000 tons of "scrap newspaper, magazines, and other" to be delivered in Taiwan appeared in the Chicago Tribune. The McKinsey Tokyo staff determined from the leading Japanese trading firms that Japanese users are not involved. In addition, a firm handling Korean waste paper imports doubts that Korea is the final destination.

Assuming the offer is serious and intended for Taiwan as indicated, 500,000 tons would represent about a 5-year supply of Taiwan's import needs. Our earlier report indicated that Taiwan exhibited several conditions similar to heavy importing Korea and thus was a threat to dramatically increase its imports. Perhaps this is the first indication of that surge.

1-2a

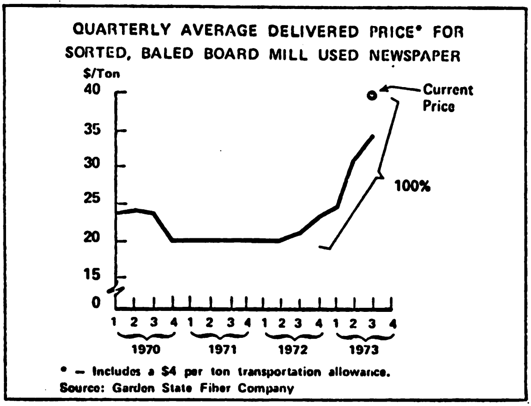
1973 SUPPLY OF USED NEWSPAPER IN SOUTHERN CALIFORNIA



Sources: McKinsey survey of Southern California paper and board mills; estimates of used newspaper dealers and brokers; Department of Commerce; McKinsey estimates.

DOMESTIC PRICES

The price of used newspaper in Southern California has increased three times over the past 3 months, bringing the current price (October 1973) to $40 per ton up from $30 per ton in July and $20 per ton in the second quarter of 1972 - a 100 percent increase in 15 months.



As indicated, this graph is based on the price paid by domestic board mills for sorted and baled used newspaper delivered to the mill. Importantly, dealers in Southern California report that foreign sources offer $5-$15 per ton more than the prevailing market price. Furthermore, foreigners accept paper unbaled - a service for which dealers normally charge $5 per ton. Hence, the real price differential is between $10 and $20 per ton

DOMESTIC SUPPLY

The supply of used newspaper appears to have increased about 2,000 tons per month in the May-July period over the first 4 months of the year. This 9 percent increase in supply was, no doubt, prompted in part by the additional $10 per ton - or 33 percent - increase in prices. However, it appears that most of the increase in supply has gone to the export market (as indicated on the facing page) since domestic mill purchases from the Southern California supply area have not increased.

2 - CONCLUSIONS

Based on our analysis of recent developments and additional information on the nature of foreign demand, we have reached two additional conclusions:

¶ The current supply/demand imbalance in the Southern California used newspaper market is not a seasonal phenomenon.

¶ Foreign demand is likely to increase, and perhaps at a greater rate than we had originally forecast.

The conclusions are examined below.

CURRENT SUPPLY/DEMAND IMBALANCE NOT SEASONAL

Our conclusion that the current imbalance in the Southern California used newspaper market is not a result of seasonal phenomena is based on two findings:

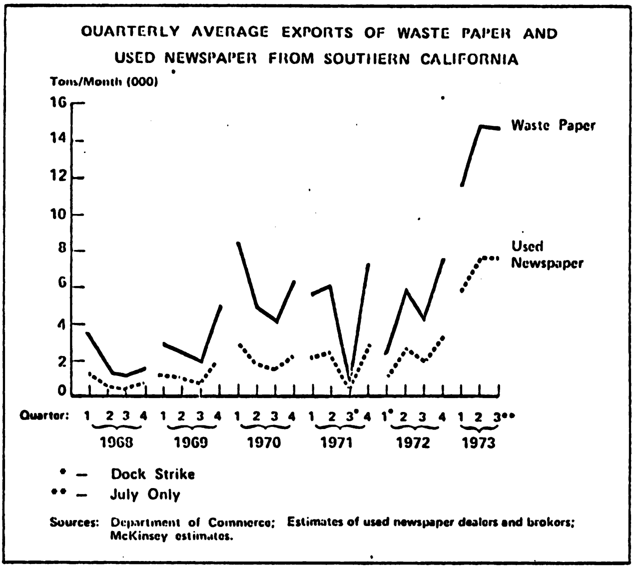
¶ Foreign demand has continued to increase in the second and third quarters of 1973 contrary to the demand pattern in previous years.

¶ Recent substantial decreases in Southern California paper mills' inventories are not a result of normal seasonal factors.

These findings are discussed below.

Foreign Demand

Foreign purchases of waste paper and used newspaper from Southern California have typically been made to offset seasonal shortages. However, demand during 1973 does not exhibit this same pattern.

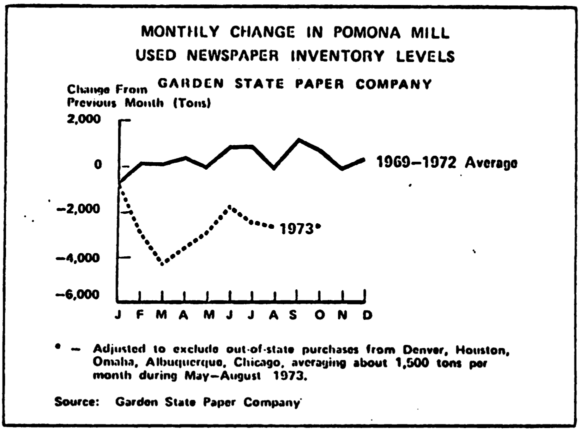


¶ Waste paper and used newspaper exports have typically been higher during the first and last quarters of the year. This seasonal pattern clearly existed in 1968-1970. Dock strikes in 1971 and 1972 make interpretation of seasonal demand difficult, but it appears that demand was high in the last quarter of those years.

¶ Exports during 1973 have continued to increase during the second and third quarters. Contrary to seasonal patterns, exports of used newspaper increased 27 percent in the second quarter, 1973. Furthermore, data for July indicate that demand is remaining at high levels.

Inventory Reductions

The recent reductions in Southern California used newspaper inventories are not the result of normal seasonal factors. Indeed, there does not appear to be a seasonal pattern for inventory build-ups or declines. Most mills do not maintain significant inventories. But, an analysis of Garden State Paper Company, the one mill which does maintain a large inventory, indicates that over the past 3 years its inventory has not exhibited seasonal patterns. The chart below shows month-to-month change in the mill's inventory levels for two periods: (1) the 1969-72 average; and (2) the first 8 months of 1973.



In contrast to previous years, inventories of used newspaper have declined dramatically this year, averaging a 2,500-ton-per-month loss during the first 8 months of 1973 when adjusted for out-of-state purchases.

FOREIGN DEMAND
TO GROW AT
INCREASED RATE

In our August 1973 report, we forecast an increase in foreign demand for Southern California used newspaper from 2,240 tons per month in 1972 to 7,028 tons per month - "at best" - and 11,308 tons per month - "at worst" - by 1975. Based on continuing evidence of extraordinary foreign demand these 1975 forecasts could be low by as much as 40-50 percent. This revised projection is based on new information on the likely extent and nature of Korean and Taiwanese demand.

Korea

Our prior estimates of future Korean demand for used newspaper from Southern California were based on increasing the projected 1973 demand for use newspaper at the estimated growth rate in Korean paper production. This

method led to estimates ranging from 5,000 to 8,000 tons per month in 1975 as opposed to 1973 estimated imports of 3,675 tons per month.

In our August report, we used the January-April export average as the estimated monthly average for 1973 and as a starting point for growing Southern California exports based on Korean paper production. As indicated earlier exports have, however, continued to increase from an average of 3,675 tons per month for 4 months to an average of 4,724 tons per month for 7 months.

Moreover, since that time the McKinsey Tokyo Office has been able to get estimates of Korean used newspaper demand, as was originally done for Japan. These estimates made by a large Korean waste paper dealer indicate that import needs through 1975 may grow at almost a 40 percent rate.

ESTIMATED KOREAN IMPORTS OF USED NEWSPAPER
(000 TONS)

	1973	1974	1975
1. Newsprint Consumption	121	154	176
2. Recovery Rate	24%	24.2%	24.6%
3. Recovered Newspaper	29	37.3	43.3
4. Used Newspaper Demand	154	215.5	284.1
5. Used Newspaper Imports (4)-(3)	125	178.2	240.8

Source: Large Korean waste paper dealer.

Thus, export estimates of around 9,000 tons per month by 1975 from Southern California seem possible if exports average 4,724 during 1973 and Korea's import needs grow at almost 40 percent per year. Alternatively, if the above forecasts are accurate and Southern California continues to supply 60-65 percent of Korea's used newspaper import needs, exports of almost 13,000 tons per month are indicated by 1975.

The difference in these two projections stems from the tonnage estimate for 1973. The first method assumes that the 4,724 tons per month 7-month average will persist throughout the year. The second method, i.e., assuming 64 percent of Korea's import needs will be supplied by Southern California, results in an estimate of 6,653 tons per month for 1973. To reach this annual average, exports would have to be about 9,300 tons per month during the August to December period. While 9,300 tons per month seem high, perhaps these two cases provide a range of likely future Korean demand on Southern California.

Taiwan

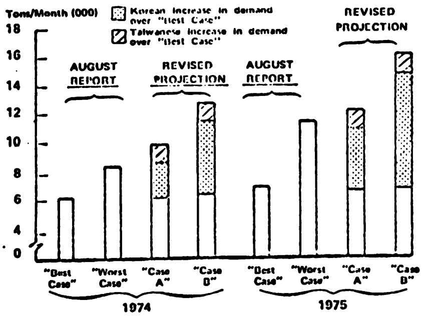
The advertisement in the Chicago Tribune for 500,000 tons of paper, discussed in the Recent Developments section, suggests that Taiwan's demand on the United States used newspaper market may increase. To translate this possibility into likely impact on the Southern California used newspaper market, it is necessary to make some assumptions.

Assumptions	Tons/Month
1. Five-year contract	8,333
2. Used newspaper will represents 80 percent of tonnage	6,666
3. Southern California will continue to supply 18 percent	1,200
4. This tonnage in addition to the 400-800 tons per month originally estimated for Taiwan	

Summary of Future Foreign Demand

The preceding projections of foreign demand for Korea and Taiwan can be combined with prior estimates of Japan's demand to produce revised projections of used newspaper exports from Southern California. These projections are compared in the exhibit below with the "Best Case" and "Worst Case" projections from our original report.

FUTURE FOREIGN DEMAND FOR SOUTHERN CALIFORNIA USED NEWSPAPER



Sources: Japan Paper Association; Industry Bureau, Ministry of Economics, Taiwan; Large Korean waste paper dealer; Chicago Tribune September 27, 1973; McKinsey estimates.

REF. 5

QUESTIONS REGARDING THE SUPPLY/DEMAND CONDITIONS IN THE SOUTHERN CALIFORNIA USED NEWSPAPER MARKET

Questions posed by individuals from the Environmental Protection Agency can be divided into four classifications:

¶ What additional information is available on factors affecting demand by Korea and Japan?

¶ Is the current situation different from the past, indicating that the supply/demand imbalance is not a seasonal phenomenon?

¶ What is the relationship between foreign demand and domestic prices of used newspaper?

¶ What additional information is available on other factors which might affect the Southern California supply/demand imbalance?

Each of these is discussed below.

ADDITIONAL INFORMATION ON JAPAN AND KOREA

Several questions regarding Korean and Japanese current levels of demand, government subsidies, economic growth, and recovery rates have been posed by individuals reviewing our final report. These questions are addressed in two sections, the first on Korea and the second on Japan.

Korea

1. What are the reasons for recent increases in U.S. exports to Korea?

   - Do recent purchases of used newspaper reflect primarily inventory accumulations?

     . There is no evidence that recent purchases are for inventory buildups. Raw materials are in short supply and paper mills are not able to maintain normal inventories, much less build inventories. For example, Korean manufacturers are turning down finished products orders from Japan because they cannot secure adequate raw materials.

2

- What new mills or additions to existing mill capacity are expected to come on stream in 1973?

  . Seven newsprint and paperboard mills plan to increase capacity, providing an increase of 27 percent in overall Korean paper mill capacity.

KOREAN PAPER MILL CAPACITY

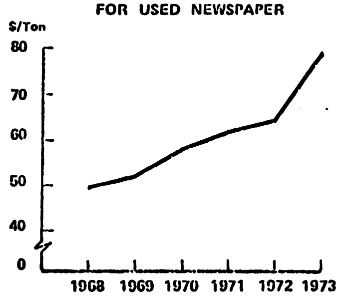
TYPE OF PAPER MILL	CAPACITY (000 TONS)		PERCENT INCREASE IN CAPACITY
	1972	1973	
Newsprint	129	173	34
Printing	168	168	–
Kraft	116	112	(3)
Paperboard	155	285	84
Others	66	66	–
Total:	634	804	27

Sources: Ministry of Commerce and Industry; Korea Development Bank; Korea Paper Manufacturers' Association

- What has the domestic price for used newspaper been over time and what variables seem important in recent price increases and possible future prices?

  . The domestic price in Korea for used news paper has increased steadily since 1968, with the sharpest increase coming in 1973.

AVERAGE KOREAN DOMESTIC MARKET PRICES FOR USED NEWSPAPER



Source: Large Korean waste paper dealer.

- Recent price increases have occurred because of surging demand (paper production was up 12 percent in the first quarter of 1973, according to statistics collected by the Economic Planning Board) without a corresponding increase in the supply of basic raw materials.

- Prices for used newspaper are likely to remain high because increases in recovery rates are expected to be modest and not adequate to close the existing gap in supply and demand.

2. To what extent is Korea using waste paper as a supplemental raw material until young forest reserves mature?

- Korea does not appear to be utilizing waste paper as a temporary replacement for pulp but rather as an ongoing raw material source.

  - Industry observers have indicated that recent increases in paperboard production have emphasized the use of waste paper as a raw material rather than paper-based production facilities require less capital investment and less lead time to bring into production.

  - Forest reserves do exist in Korea, but will take a long time to develop as adequate roads and mills are currently lacking.

  - Further, Korea imports 72 percent of its pulp needs and forest reserves must meet this demand before displacing waste paper as a raw material source.

3. Why is Korea purchasing more used newspaper in the United States than is Japan when Japan's total paper production is much greater?

- Used newspaper accounts for about 70 percent of total waste paper consumption in Korea and only about 20 percent in Japan.

- Further, Korea currently imports about 27 percent of its total waste paper needs whereas Japan imports only about 2 percent.

4. <u>Does the Korean Government subsidize used newspaper imports?</u>

   - The Korean Government does not subsidize imports of used newspaper.

   - The Government does subsidize exporters, but Korea exports less than 1 percent of its paper production.

5. <u>Do the Japanese or other foreigners own substantial mill interests in Korea?</u>

   - Japanese paper companies have not invested in Korea.

   - Kimberly Clark of the United States has invested in tissue manufacturing, representing the only identifiable foreign investor.

6. <u>What is the near- and long-term outlook for economic growth in Korea?</u>

   - Real GNP growth of between 8.6 percent and 10.2 percent per year is forecasted through 1973.

   - Economists foresee no serious problems - other than the availability of key raw materials - which will prevent Korea from attaining these growth rates.

<u>Japan</u>

1. <u>How has Japan achieved a recovery rate of 37 percent while the U.S. recovery rate is only about 22 percent?</u>

   - Japan's paper manufacturers have consistently used waste paper when possible rather than pulp as a raw material, and it is believed they have stimulated high recovery rates.

     - Most waste paper can be supplied by domestic sources whereas logs and pulp must be partially imported, leading to what industry observers call "tough business negotiations with outsiders."

     - The profitability of products produced from waste paper is said to be greater than those produced from pulp due to the escalating cost of pulp.

- The availability of low-cost labor has led to the development of businesses that purchase and collect waste paper from individual households and companies, although recent wage increases threaten the continuing availability of a low-cost labor force.

2. Why has Japan apparently given up its goal of a 56 percent recovery rate?

    - The 56 percent rate is the theoretical maximum that could be attained because 44 percent of paper consumption is not suitable for recycling.

        . Twelve percent of all paper is consumed in permanent uses that preclude recycling, e.g., books, construction materials.

        . Thirty-two percent of paper production is consumed in such a way that utilization as a raw material is not feasible, e.g., tissues, paper processed with plastic.

    - Many persons in the paper trade doubt that today's high recovery rates can be increased.

        . The overall rate of 36 percent recovery represents a 64 percent recovery rate of paper actually suitable for recycling.

        . Recovery of used newspaper is estimated at 49 percent nationwide and as high as 65 percent in Tokyo.

        . Recovery has slipped from almost 40 percent in the last 2-3 years.

3. In view of the apparent waste paper shortage, is Japan likely to institute steps to increase its recovery rate?

    - No specific government program has been implemented for waste paper recovery; national and local governments have only recently started to examine the introduction of a better system for waste paper utilization and near-term improvements are not likely.

- However, the government has taken steps to improve and modernize overall wastepaper facilities.

    - Next year, the government and private industry are jointly establishing two "waste paper stock centers" which will increase the overall capacity to store waste paper by about 50 percent.

    - Government guaranteed bank loans will be made available to help waste paper dealers improve facilities.

4. <u>How is the Japan Paper Association's subsidy for imported used newspaper structured</u>?

- <u>How is the subsidy level determined</u>?

    - Paper manufacturers and waste paper dealers make contributions to a fund based on waste paper consumed (manufacturers) and waste paper sold (dealers).

    - The Association determines the subsidy rate by dividing the total contributions to the fund by planned import volume for the year.

    - In order to ensure subsidy rates equivalent to the existing gap between domestic and foreign prices, the Association adjusts the contribution levels if import volume or costs change.

- <u>Is the subsidy level adjusted for changes in transportation costs</u>?

    - Industry observers in Japan report that variations in transportation cost have no impact on the subsidy rate.

- <u>Does the Japanese Government give tax credits for, or otherwise subsidize, the Association's subsidy</u>?

    - Under the Japanese system of taxation, contributions to the fund would be tax deductible; however, when imports are purchased at subsidized prices, the reduced costs of these imports would increase tax liability, thus offsetting the original deductions.

- Are other fiber products subsidized?

  . According to Japanese trade sources, other fiber products do not receive a subsidy for imports.

5. What is the near- and long-term outlook for economic growth in Japan?

   - Japan's real GNP is forecast to grow at 10 percent per year during the 1980s; some minor slowing might be expected over the next year as the government attempts to "cool down" the economy, but paper production is not expected to be adversely impacted.

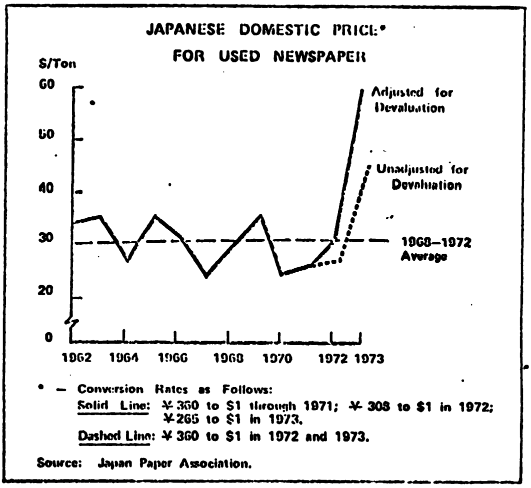
   - One possible cause for future slowing in economic growth would be a shortage of key raw materials, e.g., oil, coal, pulp.

   - Further, some slowing in paper production might be caused by the concern in Japan for preservation of its forests. At the same time, this concern could lead to increase demand for waste paper as a raw material.

6. What have domestic prices for used newspaper been in Japan and what is the implication of this for purchases in the United States?

   - From 1962 through 1972, the domestic price for used newspaper ranged from $25 to $36 per ton; in 1973 the price increased to $44 per ton

   - Importantly, and as indicated in the following graph, the Japanese can now pay $58 per ton for the same amount of yen that equalled $44 before devaluation of the U.S. dollar.



7. Are Japanese mills located further inland than Korean mills?

- Approximately 23 percent of the mills in Japan are located near the coast while most Korean paper mills are located inland.

UNIQUENESS OF CURRENT
SUPPLY/DEMAND IMBALANCE

The questions concerning the uniqueness of the current used newspaper supply/demand imbalance in Southern California revolve around past seasonal variations in domestic inventories and foreign demand.

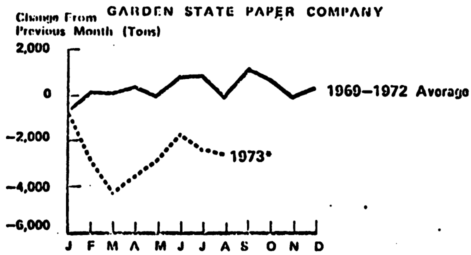
These questions are considered below.

1. What have been the seasonal inventory patterns of domestic mills in the past and are they different this year?

- Over the past 3 years, inventory levels at Garden State Paper Company's Pomona mill - the only Southern California mill that maintains a substantial

inventory - have not exhibited significant seasonal patterns. The chart below shows the month-to-month change in inventory levels for two periods: (a) the 1969-1972 average; and (b) the first 8 months of 1972.

MONTHLY CHANGE IN POMONA MILL
USED NEWSPAPER INVENTORY LEVELS
GARDEN STATE PAPER COMPANY



* – Adjusted to exclude out-of-state purchases from Denver, Houston, Omaha, Albuquerque, Chicago, averaging about 1,500 tons per month during May–August, 1973.

Source: Garden State Paper Company

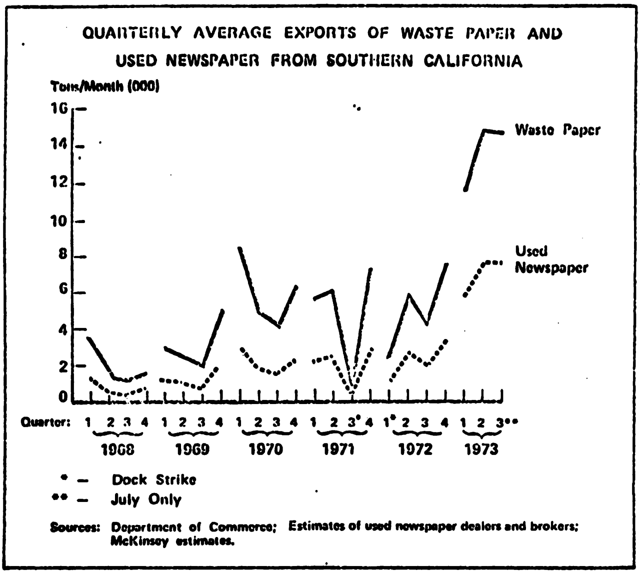
In contrast to previous years, inventories of used newspaper have declined dramatically this year, and when adjusted for out-of-state purchases have averaged a 2,500 ton-per-month reduction during the first 8 months of 1973.

2. <u>Has foreign demand been seasonal, and how does it differ this year?</u>

- Foreign demand has been seasonal with both waste paper and used newspaper exports high in the first and last quarters of the year from 1968 through 1972. There have been only two exceptions to this seasonal pattern.

  - During the second quarter of 1971 exports increased, just prior the dock strike of August and September of that year.

- Exports were low in the first quarter of 1972 because the dock strike was resumed in January and February of 1972.



- In marked contrast to this seasonal pattern, exports in 1973 did not decline in the second quarter, but rather, increased, and continued to stay at high levels in the third quarter.

3. <u>Have Gulf and East Coast exports to Asian countries been increasing this year</u>?

- Waste paper exports from East and Gulf Coast ports to Asian countries have increased almost 170 percent during the first 5 months of 1972 as shown below:

EXPORTS OF WASTE PAPER TO JAPAN KOREA AND TAIWAN

	1972 AVERAGE MONTHLY EXPORTS	1973 AVERAGE MONTHLY EXPORTS JAN.-MAY	1973 EXPORTS				
			JAN	FEB	MAR	APR	MAY
East Coast Ports*	209	1,361	–	926	1,479	1,687	2,713
Gulf Coast Ports**	411	318	167	85	1,243	37	60
Total:	620	1,679	167	1,011	2,722	1,724	2,773

* – New York, Philadelphia, Baltimore, Norfolk, and Miami
** – New Orleans, Houston, Galveston, and Laredo
Source: Department of Commerce

REF. 6

STATEMENT DESCRIBING METHOD USED TO ESTIMATE USED NEWSPAPER EXPORTS[1/]

The Department of Commerce publishes data collected by the Bureau of Census on exports of waste paper. Waste paper is defined to include corrugated containers, envelope cuttings, tab cards, and a number of other grades as well as used newspaper. However, data on exports of used newspaper is not published separately. Thus, estimates of used newspaper exports from Southern California were developed using Department of Commerce data on waste paper exports by estimating the proportion of used newspaper in waste paper.

These estimates were developed by using average price data on waste paper exports published by the Department of Commerce and information on the mix of waste paper consumption in receiving countries. Used newspaper generally has the lowest price of all waste paper grades being exported and averaged about $40 per ton during the first 4 months of 1973 according to waste paper dealers. In contrast, other waste paper grades had higher prices; $55 per ton for corrugated containers and up to $100 to $200 per ton for high grades such as tab cards. Therefore, waste paper exports that had a relatively low average price were determined to have a high proportion of used newspaper and vice versa. The following table illustrates the formula used for estimating used newspaper exports for the period January-April 1973.

EXPORTS OF WASTE PAPER AND USED NEWSPAPER FROM SOUTHERN CALIFORNIA IN 1973
(AVERAGE MONTHLY DATA FOR THE PERIOD JANUARY — APRIL)

COUNTRY	AVERAGE PRICE OF WASTE PAPER EXPORTS* ($ PER TON)	ESTIMATED PROPORTION OF USED NEWSPAPER IN WASTE PAPER EXPORTS**	AVERAGE MONTHLY WASTE PAPER EXPORTS* (TONS)	ESTIMATED AVERAGE MONTHLY USED NEWSPAPER EXPORTS (TONS)
Korea	$43.00	75%	4,896	3,672
Taiwan	43.75	75	500	375
Japan	59.20	25	5,167	1,292
Other	53.15	43	636	273
			11,199	5,612

* — Source: Department of Commerce.

** — For example, the average price of waste paper exports to Korea of $43 per ton was very close to the used newspaper average price of $40 per ton suggesting that used newspaper accounted for about 75% of waste paper exports.

The following examples illustrate how these proportions were developed.

§ For Korea, with an average price for waste paper exports of $43 per ton, assume that 10 tons of waste paper were exported. Total

1/ Developed by McKinsey & Co., Inc.

-2-

value of waste paper exports would be $430. If 8 of these 10 tons had been used newspaper at $40 per ton (total value of $320) and 2 of these 10 tons had been corrugated containers at $55 per ton (total value of $110), the total value of used newspaper and corrugated exports together would have been $430 - corresponding with the total value of exports supplied by the Department of Commerce.

	Tons	Average Price Per Ton	Total Value
Waste paper	10	$43	$430
Used newspaper	8	40	320
Corrugated containers	2	55	110
Total	10		$430

Any other mix of used newspaper and corrugated exports would yield a different value. Thus, this analysis suggests that used newspaper accounts for 80 percent of waste paper exports to Korea.

However, industry sources indicate that used newspaper accounts for 70 percent of total waste paper consumption in Korea. Thus, the average of these two figures - i.e., 75 percent - was used as the estimated proportion of used newspaper in waste paper exports to Korea.

§ For Japan, with an average price for waste paper exports of $59.20 per ton, assume that 10 tons were exported as in the case for Korea. Total value of exports would be $592. However, in contrast to Korea, industry sources indicate that about 10 percent of waste paper exports to Japan were high grades - at a price of about $150 per ton. Thus, using the approach outlined above, the breakdown of waste paper exports to Japan would be as follows:

	Tons	Average Price Per Ton	Total Value
Waste paper	10	$59.20	$592
Used newspaper	3	40.00	120
High grades	1	150.00	150
Corrugated containers	6	55.00	330
Total	10		$600

This analysis suggests that used newspaper accounts for about 30 percent of waste paper exports to Japan.

However, industry sources indicate that used newspaper accounts for about 20 percent of waste paper consumption in Japan. Therefore, the average of these figures - i.e., 25 percent - was used as the estimated proportion of used newspaper in waste paper exports to Japan.

November, 1973

EXPORTS OF WASTE PAPER FROM WEST COAST PORTS DURING 1973

(TONS)

PORTS	RECEIVING COUNTRY	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	9-MONTH AVERAGE
LOS ANGELES AND SAN DIEGO	Japan	5,776	5,194	3,960	5,757	7,726	6,156	6,064	7,855	6,188	6,075
	Korea	3,998	5,031	7,067	3,487	10,432	6,858	7,173	8,443	10,216	6,973
	Taiwan	355	520	551	572	246	337	615	359	1,252	534
	Other*	534	347	963	779	1,041	833	1,004	242	403	683
	Subtotal	*10,663*	*11,092*	*12,541*	*10,595*	*19,495*	*14,184*	*14,856*	*16,899*	*18,059*	*14,265*
SAN FRANCISCO	Japan	2,620	3,453	2,283	1,923	2,082	3,410	4,362	4,308	3,862	3,145
	Korea	533	2,423	832	1,514	2,008	1,491	2,073	2,365	1,822	1,673
	Taiwan	125	1,590	143	1,626	1,538	140	903	1,063	1,303	937
	Other*	128	63	28	511	426	201	286	41	135	202
	Subtotal	*3,406*	*7,529*	*3,286*	*5,574*	*6,054*	*5,242*	*7,624*	*7,777*	*7,122*	*5,957*
CALIFORNIA SUBTOTAL:		14,069	18,621	15,827	16,169	25,549	19,426	22,480	24,676	25,181	20,222
SEATTLE AND PORTLAND	Japan	1,777	1,971	2,293	2,108	1,804	1,658	2,365	2,403	3,333	2,190
	Korea	1,390	776	1,089	490	1,380	1,483	1,444	2,097	2,294	1,383
	Taiwan	0	262	41	0	252	0	0	384	0	104
	Other*	0	172	597	381	32	1,574	590	1,406	508	596
	Subtotal	*3,167*	*3,181*	*4,120*	*2,979*	*3,468*	*4,715*	*4,399*	*6,290*	*6,135*	*4,273*
WEST COAST TOTALS	Japan	10,173	10,618	8,536	9,738	11,612	11,224	12,791	14,566	13,383	11,410
	Korea	5,921	8,230	8,988	5,491	13,870	9,832	10,690	12,905	14,332	10,029
	Taiwan	480	2,372	735	2,198	2,036	477	1,518	1,806	2,555	1,575
	Other*	662	582	1,688	1,671	1,499	2,608	1,880	1,689	1,046	1,481
TOTAL: 1/		*17,236*	*21,802*	*19,947*	*19,148*	*29,017*	*24,141*	*26,879*	*30,966*	*31,316*	*24,495*

* – Singapore, Philippines, Australia, Thailand, South Vietnam, Canada, Hong Kong.

Source: Department of Commerce.

1/ Excludes Honolulu

November, 1973

REF. -

EXPORTS OF WASTE PAPER FROM WEST COAST PORTS DURING 1972
(TONS)

PORTS	RECEIVING COUNTRY	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	9-MONTH AVERAGE
LOS ANGELES AND SAN DIEGO	Japan	1,097	806	3,240	2,532	2,929	3,056	3,195	2,754	1,821	2,381
	Korea	120	63	1,342	3,113	1,320	1,616	1,404	1,068	170	1,135
	Taiwan	0	0	131	233	188	128	80	92	100	106
	Other*	240	0	2,639	367	618	1,031	603	636	616	750
	Subtotal	*1,457*	*869*	*7,352*	*6,245*	*5,055*	*5,831*	*5,282*	*4,550*	*2,707*	*4,372*
SAN FRANCISCO	Japan	700	472	1,778	1,382	1,322	1,061	1,371	1,465	1,167	1,191
	Korea	0	0	0	219	110	177	721	466	408	233
	Taiwan	0	0	220	35	438	27	220	245	130	146
	Other*	0	29	465	198	95	161	712	550	273	276
	Subtotal	*700*	*501*	*2,463*	*1,834*	*1,965*	*1,426*	*3,024*	*2,726*	*1,978*	*1,846*
CALIFORNIA SUBTOTAL:		2,157	1,370	9,815	8,079	7,020	7,257	8,306	7,276	4,685	6,218
SEATTLE AND PORTLAND	Japan	1,000	1,581	1,070	1,605	1,035	474	2,258	2,173	2,160	1,484
	Korea	324	0	880	169	395	299	1,257	754	983	562
	Taiwan	0	0	366	0	73	103	187	0	66	88
	Other*	61	185	0	88	44	49	460	0	250	126
	Subtotal	*1,385*	*1,766*	*2,316*	*1,862*	*1,547*	*925*	*4,162*	*2,927*	*3,459*	*2,260*
WEST COAST TOTAL	Japan	2,797	2,859	6,088	5,519	5,286	4,591	6,824	6,392	5,148	5,056
	Korea	444	63	2,222	3,501	1,825	2,092	3,382	2,288	1,561	1,930
	Taiwan	0	0	717	268	699	258	487	337	296	340
	Other*	301	214	3,104	653	757	1,241	1,775	1,186	1,139	1,152
TOTAL: 1/		*3,542*	*3,136*	*12,131*	*9,941*	*8,567*	*8,182*	*12,468*	*10,203*	*8,144*	*8,478*

* – Singapore, Philippines, Australia, Thailand, South Vietnam, Canada, Hong Kong.

Source: Department of Commerce.

1/ Excludes Honolulu

November, 1973

REF. 8

REF. 9

EXPORTS OF WASTE PAPER FROM WEST COAST PORTS DURING 1972

PORTS	RECEIVING COUNTRY	OCTOBER	NOVEMBER	DECEMBER	12-MONTH AVERAGE
Los Angeles and San Diego	Japan	4,333	5,062	5,515	3,028
	Korea	1,519	604	1,944	1,190
	Taiwan	216	716	1,101	249
	Other*	645	323	527	687
	Subtotal	6,713	6,705	9,087	5,154
San Francisco	Japan	2,558	2,933	3,302	1,626
	Korea	931	397	180	301
	Taiwan	449	1,397	459	302
	Other*	75	267	130	246
	Subtotal	4,013	4,994	4,071	2,475
California	Subtotal	10,726	11,699	13,158	7,629
Seattle and Portland	Japan	1,479	2,445	1,186	1,539
	Korea	479	866	272	557
	Taiwan	172	-	283	104
	Other*	283	25	117	130
	Subtotal	2,413	3,336	1,858	2,330
West Coast Totals	Japan	8,370	10,440	10,003	6,193
	Korea	2,929	1,867	2,396	2,048
	Taiwan	837	2,113	1,843	655
	Other*	1,003	615	774	1,063
TOTAL WEST COAST		13,139	15,035	15,016	9,959

*Singapore, Philippines, Australia, Thailand, South Vietnam, Canada, Hong Kong

SOURCE: Department of Commerce

November, 1973

REF. 11

EXPORTS OF USED NEWSPAPER* FROM WEST COAST PORTS DURING 1972

(TONS)

PORTS	RECEIVING COUNTRY	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	9-MONTH AVERAGE
LOS ANGELES AND SAN DIEGO	Japan	274	202	810	633	732	764	799	689	455	595
	Korea	90	47	1,007	2,335	990	1,212	1,053	801	128	851
	Taiwan	0	0	98	175	141	96	60	69	75	80
	Other**	103	0	1,135	158	266	443	259	273	265	323
	Subtotal	*467*	*249*	*3,050*	*3,301*	*2,129*	*2,515*	*2,171*	*1,832*	*923*	*1,849*
SAN FRANCISCO	Japan	175	118	445	346	331	265	343	366	292	298
	Korea	0	0	0	164	83	133	541	350	306	175
	Taiwan	0	0	165	26	329	20	165	184	98	110
	Other**	0	12	200	85	41	69	306	237	117	119
	Subtotal	*175*	*130*	*810*	*621*	*784*	*487*	*1,355*	*1,137*	*813*	*702*
CALIFORNIA SUBTOTAL:		642	379	3,860	3,922	2,913	3,002	3,526	2,969	1,736	2,551
SEATTLE AND PORTLAND	Japan	250	395	268	401	259	119	565	543	540	371
	Korea	243	0	660	127	296	224	943	566	737	422
	Taiwan	0	0	275	0	55	77	140	0	50	66
	Other**	26	80	0	38	19	21	198	0	108	54
	Subtotal	*519*	*475*	*1,203*	*566*	*629*	*441*	*1,846*	*1,109*	*1,435*	*913*
WEST COAST TOTAL	Japan	699	715	1,523	1,380	1,322	1,148	1,707	1,598	1,287	1,284
	Korea	333	47	1,667	2,626	1,369	1,569	2,537	1,717	1,171	1,448
	Taiwan	0	0	538	201	525	193	365	253	223	256
	Other**	129	92	1,335	281	326	533	763	510	490	496
TOTAL: 1/		*1,161*	*854*	*5,063*	*4,488*	*3,542*	*3,443*	*5,372*	*4,078*	*3,171*	*3,464*

* – Assumes used newspaper accounts for the following percentage of waste paper exports: Japan–25%; Korea–75%; Taiwan–75%; Other Countries–43%.

** – Singapore, Philippines, Australia, Thailand, South Vietnam, Canada, Hong Kong.

Source: Department of Commerce.

1/ Excludes Honolulu

November, 1973

REF. 12

EXPORTS OF USED NEWSPAPER FROM WEST COAST PORTS DURING 1972

PORTS	RECEIVING COUNTRY	OCTOBER	NOVEMBER	DECEMBER	12-MONTH AVERAGE
Los Angeles and San Diego	Japan	1,083	1,266	1,379	757
	Korea	1,139	453	1,458	893
	Taiwan	162	537	826	187
	Other*	277	139	227	295
	Subtotal	2,661	2,395	3,890	2,132
San Francisco	Japan	640	733	826	407
	Korea	698	298	135	226
	Taiwan	337	1,048	344	227
	Other*	32	115	56	106
	Subtotal	1,707	2,194	1,361	965
California	Subtotal	4,368	4,589	5,251	3,098
Seattle and Portland	Japan	370	611	297	385
	Korea	359	650	204	418
	Taiwan	129	-	212	78
	Other*	122	11	50	56
	Subtotal	980	1,272	763	937
West Coast Totals	Japan	2,093	2,610	2,502	1,548
	Korea	2,196	1,401	1,797	1,536
	Taiwan	628	1,585	1,382	491
	Other*	431	265	333	457
TOTAL WEST COAST		5,348	5,861	6,014	4,032

*Singapore, Philippines, Australia, Thailand, South Vietnam, Canada, Hong Kong

NOTE: Assumes used newspaper accounts for the following percentage of waste paper exports:

Japan - 25%
Korea - 75%
Taiwan - 75%
Other - 43%

SOURCE: Department of Commerce

November, 1973

ESTIMATED 1973 WASTE NEWSPAPER RECOVERY RATES IN CALIFORNIA

	Total California	Southern California	Northern California
Newsprint consumption (tons)	1,243,713[1]	845,725[2]	397,988[2]
Used newspaper recovery (tons)			
- For domestic consumption	298,000	215,000[3]	83,000[4]
- For export	123,300[5]	89,300[5]	34,000[5]
Total recovery	421,300	304,300	117,000
Recovery rate	33.9%	36.0%	29.4%

1 - Based on estimated 1972 newsprint consumption in California of 1,207,488 tons plus a 3 percent growth factor; 1972 newsprint consumption based on ANPA survey which indicates that daily newspapers consumed 1,015,498 tons and that this represents 84.1 percent of total newsprint consumption.

2 - Based on Editor and Publisher data that indicates that Southern California accounts for 68 percent of total California newsprint consumption.

3 - Based on API survey that indicates a domestic consumption level in Southern California of 251,000 tons and reduced by a projected supply deficit of 36,000 tons (3,000 tons per month).

4 - Based on API survey on consumption by Northern California mills; assumes supply equals consumption.

5 - Based on Department of Commerce data on wastepaper exports.

November 1973

REF. 15

CALCULATION OF RECOVERABLE WASTE NEWSPAPER IN U.S.

1970 Census - Bureau of the Census

1.	Total Population U.S.		203,212,000	
	Less: Alaska	300,000		
	Hawaii	769,000		
			1,069,000	
	Population 48 Contiguous States		202,143,000	
2.	SMSA Total Population 48 States		138,790,000	
3.	SMSA per cent of Total Population		68.6%	
4.	Add 5% factor for higher per capita solid waste collection in urban areas		5.0%	
5.	Percentage of total waste paper in U.S. generated in SMSA's		73.6%	
6.	1973 Estimated total waste news generated in U.S. 10,409,130 tons newsprint consumption x 98%		10,200,947	
7.	Percentage of waste news generated in SMSA's		x 73.6%	
8.	Total Waste News Generated in SMSA's		7,507,897	
9.	Estimated maximum feasible recovery rate		43%	
10.	Maximum feasible tonnage of recoverable waste newspapers		3,228,395	
11.	1973 Estimated Waste News Recovery			
	U. S. Consumption	2,475,000		
	Exports	150,000*		
	Total		2,625,000	(81.3%)
12.	Available for additional recovery at 43% rate		603,395	(18.7%)

* Underestimated - Gulf Coast and East Coast Exports Not Available

NOTE: Based upon MRI estimates of maximum feasible recovery of waste newspapers in SMSA's at a 43% rate - the 1973 rate of recovery in the 48 contiguous States is 34.9%.

Source: Bureau of Census
Midwest Research Institute - Paper Recycling - The Art of the Possible
American Paper Institute
American Newspaper Publishers Association

November 1973

REF. 16

CALCULATION OF RECOVERABLE WASTE NEWSPAPER IN CALIFORNIA

Total Population - California (1970 Census)	19,953,000
SMSA Population	18,500,000
SMSA percent of Total Population-California (5% factor omitted due to 87.1% of SMSA population being defined as Urban)	92.7%
1973 Total Waste News Generated in California 1,243,713 tons newsprint x 98%	1,218,838
Percentage of News Generated in SMSA's	92.7%
Total Waste News Generated in SMSA's	1,129,862.8
Estimated Maximum Feasible Recovery Rate	43%
Estimated Tonnage Recoverable at 43% Rate	485,841
1973 Waste News Recovered (Est.) (Including Exports)	421,300 - 86.72%
Available for Recovery at 43% Rate	64,541 - 13.28%

NOTE: Based upon MRI estimates of maximum feasible recovery of waste newspapers in SMSA's at a 43% rate - the 1973 rate of recovery in California is 37.2%

Source: Bureau of Census
Midwest Research Institute - Paper Recycling-The Art of the Possible
American Paper Institute
American Newspaper Publishers Association

November 1973

REF. 16a

CALCULATION OF RECOVERABLE WASTE NEWSPAPER IN WEST COAST,* U. S.

Total Population - West Coast (1970 Census)		25,453,688
SMSA Population		22,029,534
SMSA Percent of Total Population		86.5%
1973 Total Waste News Generated in West Coast 1,512,753 tons** newsprint x 98%		1,482,498
Percentage of News Generated in SMSA's		86.5%
Total Waste News Generated in SMSA's		1,282,361
Estimated Maximum Feasible Recovery Rate		43%
Estimated Tonnage Recoverable at 43% Rate		551,415
1973 Waste News Recovered (Est.)		
West Coast* Consumption	320,720***	
Exports	146,328****	
Total		467,048 - 84.7%
Available for Recovery at 43% Rate		84,367 - 15.3%

* California, Oregon, Washington.

** Based upon ANPA data on 1972 newsprint consumption of 84.1% for dailies and ANPA estimate of 3% increase in 1973.

*** Assumes 98% of Pacific Region Consumption (API) less 36,000 tons inventory drawdown of previously recovered paper.

**** First 9 months 1973 average annualized.

NOTE: Based upon MRI estimates of maximum feasible recovery of waste newspapers in SMSA's at a 43% rate - the 1973 rate of recovery for West Coast is 36.4%.

SOURCE: Bureau of Census
Midwest Research Institute - Paper Recycling - The Art of the Possible
American Paper Institute
American Newspaper Publishers Association

November 1973 (Revised)

. 1'

UTILIZATION OF OLD NEWSPAPERS BY MAJOR USERS
ACCORDING TO END PRODUCT USE
1970-1975

SOURCE: Paper, Paperboard, Woodpulp Capacity Survey, 1970-1975, American Paper Institute

Year	Total U.S. Tonnage	Pacific Coast Tonnage	% of U.S. Tonnage	California Tonnage	% of P.C. Tonnage	% of U.S. Tonnage
NEWSPRINT:						
1970	371,000	99,000	26.7%	99,000	100%	26.7%
1971	393,000	102,000	26.0%	102,000	100%	26.0%
1972	421,000	100,000	23.8%	100,000	100%	23.8%
1973F	471,000	134,000	28.5%	134,000	100%	28.5%
1974F	527,000	134,000	25.4%	134,000	100%	25.4%
1975F	569,000	166,000	29.2%	134,000	80.7%	23.6%
Summary of Increase	+198,000	+ 67,000	33.8%	+ 35,000	52.2%	17.7%
% Change	+ 53.4%	+ 67.7%		+ 35.4%		
RECYCLED PAPERBOARD:						
1970	1,437,000	144,000	10.0%	133,000	92.4%	9.3%
1971	1,373,000	162,000	11.8%	151,000	93.2%	11.0%
1972	1,477,000	178,000	12.1%	166,000	93.3%	11.2%
1973F	1,540,000	179,000	11.6%	167,000	93.3%	10.8%
1974F	1,583,000	180,000	11.4%	168,000	93.3%	10.6%
1975F	1,608,000	183,000	11.4%	171,000	93.4%	10.6%
Summary of Increase	+ 171,000	+39,000	22.8%	+ 38,000	97.4%	22.2%
% Change	+ 11.9%	+ 27.1%		+ 28.6%		

REF. 17

Page 2 - Utilization of Old Newspapers by Major Users According to End Product Use 1970-1975

CONSTRUCTION BOARD & MOLDED PULP:

1970	307,000	40,000	13.0%	29,000	72.5%	9.4%
1971	309,000	34,000	11.0%	23,000	67.6%	7.4%
1972	328,000	46,000	14.0%	33,000	71.7%	10.1%
1973F	354,000	49,000	13.8%	33,000	67.3%	9.3%
1974F	350,000	49,000	14.0%	33,000	67.3%	9.4%
1975F	360,000	49,000	13.6%	33,000	67.3%	9.2%
Summary						
Increase	+ 53,000	+9,000	17.0%	+4,000	44.4%	7.5%
% Change	+17.3%	+22.5%f		+13.8%		

BALANCE OF ALL OTHER USERS OF OLD NEWSPAPERS:

1970	120,000	33,000	27.5%	7,000	21.2%	5.8%
1971	99,000	21,000	23.1%	0	0	0
1972	91,000	1,000	1.1%	0	0	0
1973F	110,000	2,000	1.8%	0	0	0
1974F	108,000	2,000	1.9%	0	0	0
1975F	109,000	3,000	2.8%	1,000	33.3%	0.9%
Summary						
Increase	-11,000	-30,000	-272.7%	-6,000	20%	-54.5%
% Change	- 9.2%	- 90.9%		- 85.7%		

F-Forecast
Note: Detail does not necessarily add due to rounding

American Paper Institute
Paper Stock Conservation Committee
November, 1973

1970-1975 WASTEPAPER UTILIZATION
IN PAPER AND PAPERBOARD MANUFACTURE
FOR U. S., PACIFIC COAST REGION* AND CALIFORNIA

SOURCE: Paper, Paperboard, Woodpulp Capacity Survey, 1970-1975, American Paper Institute

Year	Total U.S. Tonnage	Pacific Coast Region Tonnage	% of U.S. Tonnage	California Tonnage	%Pacific C. Tonnage	% of U.S. Tonnage
TOTAL UTILIZATION FOR ALL GRADES:						
1970	12,021,000	1,476,000	12.3%	1,090,000	73.8%	9.1%
1971	12,323,000	1,456,000	11.8%	1,112,000	76.4%	9.0%
1972	13,132,000	1,558,000	11.9%	1,201,000	77.1%	9.1%
1973F	14,096,000	1,637,000	11.6%	1,259,000	76.9%	8.9%
1974F	15,042,000	1,767,000	11.7%	1,346,000	76.2%	8.9%
1975F	15,762,000	1,883,000	11.9%	1,380,000	73.3%	8.8%
Summary of Increase	+3,741,000	+ 407,000	10.9%	+ 290,000	71.2%	7.8%
% Change	+31.1%	+27.6%		+26.6%		
MIXED PAPER UTILIZATION:						
1970	2,639,000	202,000	7.7%	171,000	84.6%	6.5%
1971	2,776,000	223,000	8.0%	187,000	83.9%	6.7%
1972	3,054,000	263,000	8.6%	197,000	74.9%	6.5%
1973F	3,222,000	249,000	7.7%	189,000	75.9%	5.9%
1974F	3,356,000	267,000	8.0%	190,000	71.2%	5.7%
1975F	3,446,000	270,000	7.8%	193,000	71.5%	5.6%
Summary of Increase	+807,000	+68,000	8.4%	+22,000	32.4%	2.7%
% Change	+30.6%	+33.7%		+12.9%		

F-Forecast
*Includes the States of: Arizona, California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Washington, Wyoming

REF. 18

Page 2 - 1970-1975 Wastepaper Utilization in Paper and Paperboard Manufacture for U.S., Pacific Coast Region* and California

NEWS UTILIZATION:

1970	2,235,000	316,000	14.1%	268,000	84.8%	12.0%
1971	2,174,000	319,000	14.7%	276,000	86.5%	12.7%
1972	2,317,000	325,000	14.0%	299,000	92.0%	12.9%
1973F	2,475,000	364,000	14.7%	334,000	91.8%	13.5%
1974F	2,568.000	365,000	14.2%	335,000	91.8%	13.0%
1975F	2,646,000	401,000	15.2%	339,000	84.5%	12.8%
Summary of Increase	+411,000	+85,000	20.7%	+71,000	83.5%	17.3%
% Change	+18.4%	+26.9%		+26.5%		

CORRUGATED UTILIZATION:

1970	4,080,000	654,000	16.0%	480,000	73.4%	11.8%
1971	4,277,000	607,000	14.2%	470,000	77.4%	11.0%
1972	4,722,000	719,000	15.2%	536,000	74.5%	11.4%
1973F	5,219,000	763,000	14.6%	562,000	73.7%	10.8%
1974F	5,838,000	849,000	14.5%	630,000	74.2%	10.8%
1975F	6,326,000	915,000	14.5%	651,000	71.1%	10.3%
Summary of Increase	+2,246,000	+261,000	11.6%	+171,000	65.5%	7.6%
% Change	+55.0%	+39.9%		+35.6%		

Page 3 - 1970-1975 Wastepaper Utilization in Paper and Paperboard Manufacture for U.S., Pacific Coast Region* and California

HIGH GRADE UTILIZATION:

1970	3,067,000	304,000	9.9%	171,000	56.2%	5.6%
1971	3,097,000	299,000	9.7%	179,000	59.9%	5.8%
1972	3,037,000	251,000	8.3%	168,000	66.9%	5.5%
1973F	3,181,000	260,000	8.2%	173,000	66.5%	5.4%
1974F	3,277,000	287,000	8.8%	191,000	66.6%	5.8%
1975F	3,342,000	296,000	8.9%	197,000	66.6%	5.9%
Summary of Increase	+275,000	-8,000	26.5%	+26,000	102.7%	9.5%
% Change	+9.0%	-2.6%		+15.2%		

F-Forecast
Note: Detail does not necessarily add due to rounding

American Paper Institute
Paper Stock Conservation Committee
November, 1973

REF. 19

1970-1975 WASTEPAPER UTILIZATION IN PAPER AND PAPERBOARD MANUFACTURE FOR SOUTHERN AND NORTHERN CALIFORNIA

SOURCE: Paper, Paperboard, Woodpulp Capacity Survey, 1970-1975, American Paper Institute

Area	1970	1971	1972	1973F	1974F	1975F	Summary of Increase	% Change
TOTAL UTILIZATION FOR ALL GRADES:								
Southern California	639,000	650,000	715,000	758,000	788,000	797,000	+158,000	+ 24.7%
Northern California	451,000	462,000	486,000	501,000	558,000	583,000	+132,000	+ 29.3%
Total	1,090,000	1,112,000	1,201,000	1,259,000	1,346,000	1,380,000	+290,000	+ 26.6%
MIXED GRADE UTILIZATION:								
Southern California	99,000	99,000	104,000	105,000	105,000	105,000	+ 6,000	+ 6.1%
Northern California	72,000	88,000	93,000	84,000	85,000	88,000	+ 16,000	+ 22.2%
Total	171,000	187,000	197,000	189,000	190,000	193,000	+ 22,000	+ 12.9%
NEWS UTILIZATION:								
Southern California	200,000	201,000	217,000	251,000	252,000	253,000	+ 53,000	+ 26.5%
Northern California	68,000	75,000	82,000	83,000	83,000	86,000	+ 18,000	+ 26.5%
Total	268,000	276,000	299,000	334,000	335,000	339,000	+ 71,000	+ 26.5%

REF. 19

Page 2 - 1970-1975 Wastepaper Utilization in Paper and Paperboard Manufacture for Southern and Northern California

Area	1970	1971	1972	1973F	1974F	1975F	Summary of Increase	% Change
CORRUGATED UTILIZATION:								
Southern California	248,000	241,000	276,000	279,000	290,000	295,000	+ 47,000	+19.0%
Northern California	232,000	229,000	260,000	284,000	340,000	356,000	+ 124,000	+53.4%
Total	480,000	470,000	536,000	563,000	630,000	651,000	+ 171,000	+35.6%
HIGH GRADE UTILIZATION:								
Southern California	92,000	109,000	118,000	123,000	141,000	144,000	+ 52,000	+56.5%
Northern California	79,000	70,000	51,000	50,000	50,000	53,000	- 26,000	-32.9%
Total	171,000	179,000	169,000	173,000	191,000	197,000	+ 26,000	+15.2%

F-Forecast

American Paper Institute
Paper Stock Conservation Committee
November, 1973

REF. 20

WASTEPAPER, NO. 1 NEWS, AVERAGE OF 5 MARKETS - CODE 09-12-01-02

WHOLESALE PRICE INDEX

(1967=100)

YEAR	AVG.	JAN.	FEB.	MARCH	APRIL	MAY	JUNE	JULY	AUG.	SEPT.	OCT.	NOV.	DEC.
1967	100.0	96.2	96.2	98.6	98.6	96.2	97.5	97.5	95.7	98.0	101.1	109.4	115.8
1968	137.1	118.4	133.9	138.1	139.3	142.1	142.9	148.8	132.7	131.5	142.9	145.3	139.3
1969	122.9	138.7	138.7	136.9	126.8	118.4	118.4	118.4	118.4	116.0	115.3	113.0	116.6
1970	108.2	116.6	116.6	118.9	118.9	111.8	105.2	105.2	102.9	100.4	100.4	100.4	100.4
1971	103.1	99.8	97.4	101.0	101.0	98.6	107.0	98.6	102.2	103.4	105.8	105.8	123.1
1972	119.2	123.1	123.1	127.9	127.9	128.5	121.3	121.3	114.8	118.3	108.8	108.8	106.4
1973	106.4	106.4	101.6	101.6	101.6	101.6	116.6	116.6	116.6	155.4	176.3	222.9	

SOURCE: Bureau of Labor Statistics

November, 1973

REF. 20

REF. 21

W.P.I. MARKET PRICE COMPARISON FOR SELECTED MONTHS
(5 W.P.I. Markets)

NO. 1 NEWS

	1973					Price Change		Index Change		
Markets	Jan.	May	Sept.	Oct.	Nov.	$ May-Nov. 1973	%	May	Nov.	% (+)(-)
Chicago	$20.00	$18.00	$28.00	$35.00	$45.00	+27.00	+150.0	-	-	-
Boston	15.50	15.50	26.00	26.00	38.00	+23.50	+151.6	-	-	-
New York	16.00	16.00	22.50	25.00	29.00	+13.00	+ 81.2	-	-	-
Philadelphia	20.00	18.00	25.00	33.50	42.00	+24.00	+133.3	-	-	-
Los Angeles	18.00	17.50	28.50	28.50	32.00	+14.50	+ 82.8	-	-	-
Average Price	$17.90	$17.00	$26.00	$29.60	$37.20	+20.40	+120.0	101.6	222.9	+119.3%
San Francisco 1/	$18.00	$18.00	$31.00	$31.00	$35.00	+17.00	+ 94.4			

1/ NOT INCLUDED IN INDEX

SOURCE: Bureau of Labor Statistics

November 1973

REF. 21

REF. 22(a)

U.S. EXPORTS OF WASTE PAPER
FIRST 9 MONTHS
1971-1973

TONS

PORTS	1973	1972	1971	% Change 1973-1972	% Change 1973-1971
EAST COAST	81,870	59,913	77,019	+ 36.6	+ 6.3
GREAT LAKES	98,802	111,264	100,618	- 11.2	- 1.8
GULF COAST	73,201	48,442	62,169	+ 51.1	+ 17.7
WEST COAST	229,630	79,970	82,484	+ 187.1	+ 178.4
TOTAL U.S.	483,503	299,589	322,290	+ 61.4	+ 50.0
			DOLLAR VALUE		
EAST COAST	$ 4,752,481	$ 3,190,079	$ 4,290,496	+ 49.0	+ 10.8
GREAT LAKES	5,489,591	4,976,323	4,792,286	+ 10.3	+ 14.6
GULF COAST	4,614,217	2,124,704	3,294,884	+ 117.2	+ 40.0
WEST COAST	13,636,190	4,718,007	4,198,997	+ 189.0	+ 224.7
TOTAL U.S.	$28,492,479	$15,009,113	$16,576,663	+ 89.8	+ 71.9
			DOLLARS PER TON		
EAST COAST	$ 58.05	$ 53.25	$ 55.71	+ 9.0	+ 4.2
GREAT LAKES	55.56	44.73	47.63	+ 24.2	+ 16.6
GULF COAST	63.03	43.86	53.00	+ 43.7	+ 18.9
WEST COAST	59.38	59.00	50.91	+ 0.6	+ 16.6
TOTAL U.S.	$ 58.93	$ 50.10	$ 51.43	+ 17.6	14.6

SOURCE U.S. Census Bureau

November 1973
Paper Stock Conservation Committee
American Paper Institute

REF. 22(c)

U. S. EXPORTS OF WASTE PAPER
FIRST 9 MONTHS
1971-1973

DOLLAR VALUE

Points of Destination	1973	1972	1971	% 73-72	% 73-71
Canada	$ 5,969,719	$ 5,251,412	$ 4,901,530	+ 0.3	2.1
Europe	1,639,565	1,002,201	1,517,409	+ 63.6	8.1
Italy	1,966,775	1,044,360	1,464,863	+ 53.2	12.7
United Kingdom	154,361	6,029	3,642	+2460.3	+4138.4
Far East	10,152,067	4,356,948	5,112,298	+ 133.0	+ 98.6
Australia	181,238	168,807	159,496	- 0.04	- 17.0
Japan	8,288,820	3,212,762	2,716,931	+ 126.9	+ 119.8
Korea	4,646,934	857,965	682,716	+ 375.9	+ 353.4
Philippines	725,087	786,256	652,498	- 8.9	- 0.4
Taiwan	937,543	519,702	902,643	+ 54.3	- 28.0
Latin America	3,753,741	1,786,983	3,410,628	+ 110.1	+ 10.1
Argentina	617,659	276,733	844,380	+ 207.6	+ 3.7
Mexico	2,261,506	393,280	1,414,711	+ 488.2	+ 30.2
Venezuela	1,912,602	1,497,548	1,723,555	+ 50.4	+ 12.7
Mid-East	85,497	68,272	25,161	+ 25.2	± 239.8
TOTAL	$28,492,479	$15,009,113	$16,576,663	+ 89.8	+ 71.9

SOURCE: U.S. Census Bureau

November, 1973
Paper Stock Conservation Committee
American Paper Institute

REF. 22(d)

U.S. EXPORTS OF WASTE PAPER
FIRST 9 MONTHS
1971-1973

DOLLARS PER TON

Points of Destination	1973	1972	1971	% 73-72	% 73-71
Canada	$ 49.61	$ 45.53	$ 47.97	+ 9.0	+ 3.4
Europe	55.69	42.98	47.67	+ 29.6	+ 16.8
Italy	54.41	42.53	48.76	+ 27.9	+ 11.6
United Kingdom	79.49	200.97	31.13	- 60.4	+ 155.3
Far East	54.67	59.60	53.88	- 8.3	+ 1.5
Australia	47.73	47.20	37.60	+ 1.1	+ 26.9
Japan	65.37	62.14	54.35	+ 5.2	+ 20.3
Korea	44.51	47.38	51.88	- 6.1	- 14.2
Philippines	66.34	99.75	68.52	- 33.5	- 3.2
Taiwan	35.63	41.11	62.68	- 13.3	- 43.2
Latin America	62.85	45.32	52.96	+ 38.7	+ 18.7
Argentina	87.05	60.21	73.18	+ 44.6	+ 19.0
Mexico	63.22	44.04	52.27	+ 43.6	+ 20.9
Venezuela	57.07	43.68	45.59	+ 30.7	+ 25.2
Mid-East	77.23	135.46	166.63	- 43.0	- 53.7
Total	$58.93	$ 50.10	$ 51.43	+ 17.6	+ 14.6

SOURCE: U.S. Census Bureau

November, 1973
Paper Stock Conservation Committee
American Paper Institute

REF. 23

Garden State Paper Company - Garfield, New Jersey Mill

Waste News Paper Stock Inventory Data

WEEK ENDING		1 RECEIVED (Tons)	2 CONSUMED (Tons)	3 ADJ.	4 GAIN OR LOSS	5 TOTAL INVENTORY
On Hand-May 31, 1973						28,202
June	7	4,086	3,798		+ 288	28,190
	14	3,797	3,802		- 5	28,185
	21	4,129	3,886		+ 243	28,728
	28	3,355	3,984		- 629	28,099
July	5	3,050	3,108	(+ 59)	- 58	28,100
	12	3,638	3,744		- 106	27,991
	19	3,784	3,908		- 124	27,870
	26	3,230	3,689		- 459	27,411
August	2	2,975	4,248	(-510)	-1,273	25,628
	9	2,486	3,306		- 820	24,808
	16	2,622	3,036		- 414	24,391
	23	3,034	3,703		- 669	23,729
	30	2,883	3,827		- 944	19,771 1/
September	6	1,887	2,748	(-177)	- 861	18,733
	13	3,002	3,875		- 873	17,860
	20	3,125	4,025		- 900	16,960
	27	3,080	4,113		-1,033	15,927
October	4	2,856	4,065	(-196)	-1,209	14,522
	11	3,040	4,108		-1,068	13,454
	18	3,329	3,998		- 669	12,785
	25	2,997	4,185		-1,188	11,597

1/ Inventory loss of 3,014 tons caused by fire at Newark warehouse.

NOTE: Adjustments noted in Column 3 are used to correct consumption figures after month end physical inventory and machine readings of newsprint production.

October 29, 1973

REF. 24

Garden State Paper Company - Pomona, California Mill

Waste News Paper Stock Inventory Data

WEEK ENDING		1 RECEIVED (Tons)	2 CONSUMED (Tons)	3 GAIN OR LOSS	4 TOTAL INVENTORY
On Hand-December 31, 1972					19,232
January	5	2,004	2,145	- 171	19,091
	12	2,116	2,332	- 216	18,875
	19	1,949	2,516	- 567	18,308
	26	2,334	2,368	- 34	18,274
February	2	2,294	2,476	- 182	18,092
	9	1,727	2,390	- 663	17,429
	16	1,713	2,558	- 845	16,584
	23	1,254	1,800	- 546	16,038
March	2	1,700	2,502	- 802	15,236
	9	1,260	2,393	- 133	14,103
	16	1,489	2,614	- 125	12,978
	23	1,513	2,529	-1,016	11,962
	30	1,431	2,480	-1,049	10,913
April	6	1,503	2,412	- 909	10,004
	13	1,625	2,386	- 761	9,243
	20	1,819	2,427	- 608	8,635
	27	1,608	2,581	- 773	7,662
May	4	1,648	2,292	- 644	7,018
	11	1,822	2,502	- 680	6,338
	18	1,957	2,414	- 457	5,881
	25	2,130	2,496	- 366	5,515
June	1	1,927	2,459	- 532	4,983
	8	2,453	2,560	- 117	4,876
	15	2,479	2,347	+ 132	5,008
	22	2,871	2,588	+ 283	5,291
	29	2,325	2,323	- 998	5,293
July	6	1,803	1,881	- 79	5,215
	13	2,950	2,676	+ 274	5,489
	20	2,393	2,437	- 44	5,445
	27	2,081	2,637	- 656	4,889
August	3	1,817	2,620	- 803	4,086
	10	1,693	2,200	- 507	3,579
	17	2,337	2,408	- 71	3,508
	24	2,263	2,433	- 170	3,338
	31	2,147	2,484	- 337	3,001
September	7	1,623	1,652	- 29	2,972
	14	2,574	1,987	+ 587	3,559
	21	2,195	1,962	+ 233	3,792
	28	1,977	2,410	- 433	3,359
October	5	1,984	2,508	- 524	2,835
	12	2,279	2,350	- 71	2,764

October 29, 1973

REF. 25

PRICE PER TON
WASTE NEWS PAPER STOCK DELIVERED TO GARDEN STATE MILLS
GARDEN STATE PAPER COMPANY

1972	Gar-field	FOB Dlr.	FSC	FOB Dlr.	Po-mona	FOB Dlr.	1973	Gar-field	FOB Dlr.	FSC	FOB Dlr.	Po-mona	FOB Dlr.
Jan.	34	29	28	23.25	25	20	Jan.	28		28		27	22
Feb.	34		28		25		Feb.	26	21	28		27	
Mar.	34		28		25		Mar.	26		28		30	25
Apr.	32	27	28		25		Apr.	26		28		30	
May	32		28		25		May	26		28		35	30
June	32		28		25		June	26		28		35	
July	30	25	28		25		July	28	23	28	23	35	
Aug.	30		28		25		Aug.	35	30	33	28	40	35
Sept.	28	23	28		27	22	Sept.	40	35	38	33	40	
Oct.	28		28		27		Oct.	43	38	45	40	42	36
Nov.	28		28		27		Oct.	48	43	45		46	40
Dec.	28		28		27		Nov.	48		50	45	46	
							Nov.	53	47	59	54	46	
							Dec.	53		64	59	46	

	Garfield	FSC	Pomona
Transportation	$3.00	$3.00	$4.00
Brokerage	2.00	1.75	1.00
TOTAL	$5.00	$4.75	$5.00
September 1973			
Transportation		$4.00	
Brokerage		1.60*	
TOTAL		$5.60	
October 1, 1973			
Transportation			$5.00
Brokerage			1.00
TOTAL			$6.00
November 9, 1973			
Transportation	$4.00		
Brokerage	2.00		
TOTAL	$6.00		

*FSC pays brokerage on a sliding scale. 15¢ up or down for each $2.00 increment. 70¢ base. Use a $5.00 average over $38.00 delivered.

December 1973

REF. 26

THE RECORD, WEDNESDAY, AUGUST 22, 1973

Bergen County, New Jersey

Major recycling effort planned

The Associated Press

TRENTON — The state Department of Environmental Protection is preparing to develop a major program of recycling refuse in an attempt to ease the garbage crisis.

Eventually, a department official said, regional reclamation centers will be established throughout the state.

The official, Stephen Baruch, special assistant to the director of the Division of Environmental Quality, said yesterday:

"The public is ready for recycling, and it's now up to the state to provide the incentives and direction by making recycling more economical than the present system of burying our mountains of garbage at a tremendous cost to the taxpayer."

Baruch said that a pilot project is expected to be put into operation sometime next year. Although a site has not yet been selected, two areas are being considered by the state— one in Middlesex County and the other in Monmouth County — where recycling programs are in operation on a limited basis.

Some experts believe that up to 80 per cent of the garbage now buried can be recovered. The remaining 20 per cent can be used as fuel to generate electricity.

The money from the sale of the recyclable material — such as cans, bottles, and newspapers — would pay for the operation of the reclamation plants.

A number of legislative leaders, including Assembly Speaker Thomas H. Kean, R-Essex, support the proposal to place a $50-million recycling referendum before the voters in November 1974. The $50 million would be used to established 25 regional reclamation centers.

Meanwhile, the Hackensack Meadowlands Development Commission is scheduled to announce at the end of the month its reclamation program, which may be the largest in the nation.

The Meadowlands now receives more than 35,000 tons of refuse each week from 118 municipalities in North Jersey. Faced with a shortage of landfill space, the commission has until 1976 to introduce a recycling program in the meadows or close down its dump, the largest in the state.

REF. 29

WORKSHEET FOR PROJECTING 1973 EXPORTS FROM WEST COAST

AND 1975 WASTE NEWSPAPER DEMAND FROM KOREA, JAPAN, TAIWAN

Per Month	Korea	Japan	Taiwan
1973 Exports	7,500[1]	3,100[3]	1,200[5]
1975 Exports	14,700[2]	8,400[4]	4,700[6]
(½ of increase)	(11,100)	(N.A.)	(2,950)
Increase over 1973	7,200	5,300	3,500
Total Increase 1975	16,000		

West Coast

Total 1975 Exports	27,800 tons/mo.	- 333,600/yr.
Total 1973 Exports	11,000 tons/mo.	- 141,600/yr.
Increase	16,000 tons/mo.	- 192,000/yr.

1/ Census Bureau(9 months average) rounded from 7522.
2/ McKinsey estimate of 40% growth per year 1974-1975 (3000 + 4200 - 7200 rounded).
3/ Median figure between 2853 average first 6 months and 3395 average third quarter Census Bureau.
4/ 3400 ton projection of third quarter results plus 5000 tons for new mill.
5/ Based upon 1182 average first 9 months 1973.
6/ Based on new requirement of 6666 tons of which 53% to be supplied by West Coast - (S. Cal. 18% - N. Cal. 35%) Percentages from McKinsey Report on Taiwan Demand from Southern California.

December 1973

Mr. FRENZEL. Mr. Chairman, thank you.

Mr. Norris, the company that you represent is a major employer within my district. We hear repeatedly in Congress that when we export simple commodities, we are exporting American jobs, but when we export technology, we are doing double harm to local industry and local jobs. However, it has been by contrary experience that the export of products such as those produced by your company, contributes to local employment. I would like to have a statement, either general or specific, from you on that subject.

Mr. NORRIS. Yes, sir, that is our experience. For instances, I alluded to our export sales earlier, $330 million out of $948 million total, and this sort of seems to keep right in step. For every job we create overseas through the export of products or technology, we establish two jobs here in the United States, and I think this is true of other similar industries.

Mr. FRENZEL. That is the experience of Control Data?

Mr. NORRIS. Yes, sir.

Mr. FRENZEL. It has been said that when a computer hits the market in this country, whether it is produced by IBM or Honeywell or Control Data, the technology that is built into that computer is somewhere around 5 years old.

Is that a fair statement?

Mr. NORRIS. Yes, on the average I think that would be a reasonable statement.

You start out with a set of components and it takes the engineers from 2 to 3 years to build a prototype, and then you have to put that prototype through tests before you put it into production. You at the same time have to test out your programs. So I would say 5 years is a very good number.

Mr. FRENZEL. You said that the Russian technology was less than that behind us anyway?

Mr. NORRIS. Yes. I divide it up into two parts. The computer technology that is computer main frame is probably 3 years or less, and, you see, when somebody wants to catch up, they know the direction to go. So that makes the gap otherwise narrower than it would be. In the area of peripheral technology we think maybe it is a year or two more. But somewhere in the 3 to 4 year area.

Mr. FRENZEL. So that even if you were able to sell your most modern hardware or software overseas to COMECON countries or to Russia or China, the technology would in effect be something that would be available to them anyway probably?

Mr. NORRIS. Probably, because today the equivalent technology in other countries, particularly Western Europe and Japan, is about the same as ours, and when you add that to the status of that technology in the socialist countries, it is about a 2 to 3 or 4 year gap.

Mr. FRENZEL. I understand that CDC has signed an agreement, or at least did last fall, with the State committee of the U.S.S.R.'s Council for Ministers of Science and Technology. I presume that under the existing arrangements, the details of that agreement or protocol or whatever it was was reported to the State Department and the Department of Commerce.

Mr. NORRIS. Yes, sir. We always report just as quickly as we can whenever a representative returns from overseas.

Mr. FRENZEL. In your testimony, you indicated that 15 days was probably insufficient time——

Mr. NORRIS. That is correct.

Mr. FRENZEL [continuing]. To make that report.

Mr. NORRIS. Yes.

Mr. FRENZEL. Are they pretty complicated reports?

Mr. NORRIS. Well——

Mr. FRENZEL. Or do you just hand them the agreement to——

Mr. NORRIS. Well, you can just hand them the agreement, but you would have to explain it, and it is not just a question of handing it to one person. Our Government is a pretty big bureaucracy and it is essential to get the word to many areas and so to do a thorough job of getting across the essence of the agreement and the background and where it is likely to go. It takes much longer than 2 weeks.

Mr. FRENZEL. I notice in the newspaper treatment of that exchange pact, Control Data, Co., Control Data Corp. emphasized that it was an exchange of technology. Many of the critics of trade tell us that the flow of technology or technological information is a one-way street and we are giving away some priceless scientific assets.

But the appropriate news release indicated that you expect to gain much from the Russians in terms of technology. Your testimony indicated the same.

Is that normal when you make these kinds of agreements?

Mr. NORRIS. It is our policy, sir, that we do not want to sell technology for cash, that we only wish to exchange it where we get a share of the market or equivalent technology back or some combination.

Mr. FRENZEL. Thank you. You indicate in your testimony that the potential systems market in central Europe was diminished.

Why is that, sir?

Mr. NORRIS. Well, I think it is largely because the administration of our Export Control Act, I think we have——

Mr. FRENZEL. Have we lost much of that market?

Mr. NORRIS. Yes. I think it is largely gone now.

Mr. FRENZEL. You indicated that the United States was difficult to do business with and that difficulty has caused the loss of a substantial portion of that market.

Mr. NORRIS. Yes.

Mr. FRENZEL. Presumably a loss in a substantial number of American jobs as a result?

Mr. NORRIS. Yes, sir.

Mr. FRENZEL. Mr. Chairman, I would like to refer to Mr. Norris' statement on technical advisory committees and ask you if it was not the intent of this subcommittee last year to reinvigorate those advisory committees, so that the Government would get some real input rather than currently the pablum that they are receiving at this point?

Am I correct?

Mr. Ashley. You are entirely correct. Unfortunately, our effort, which of course did pass the House, has not been acted upon by the other body.

Mr. Frenzel. Well, I wanted to assure our witness that this subcommittee was alert to that particular problem, but apparently, we are not significantly persuasive with our colleagues in the Senate.

Mr. Chairman, I have overused my time and when the other people are through questioning, I would like to direct a few questions to the other witnesses. I now yield.

Mr. Ashley. Because Mr. Norris does have a plane to catch, Mr. Conlan, I wonder if you have some questions for him?

Mr. Conlan. Yes, I do, just a couple. In fact, he is the only one I really have questions for. None of the gentlemen have plants in my district, so I am a free agent and do not have to make any leading questions or whatnot to support their case. In fact, Dr. Hogan is listed as a substantial contributor to my opponent in the last election, so I will not hit you too hard, Dr. Hogan, to show I am a good sport.

Mr. Norris, you referred to the pact that you have inked with the Soviet Coucil of Ministers last October, leading toward the swap of CDC skills and computer making for Soviet computers and computer programing.

Would you comment, please, with regard to the nature of the substance of the agreement or would it be easier for you to give us a copy of that agreement, since you have already given it to the State Department and the Department of Commerce and also to the White House?

Mr. Norris. Well, we would be very happy to give you a copy of it, and I might say that this is an agreement to enter into an agreement. It is a very preliminary document.

Mr. Conlan. But you could send us a copy to the subcommittee here?

Mr. Norris. Yes, sir.

Mr. Conlan. I would appreciate that.

Mr. Ashley. That will be inserted in the record.

[The agreement referred to between the Control Data Corp. and the State Committee of the Council of Ministers of the U.S.S.R. for Science and Technology, follows:]

Agreement—on Scientific and Technical Cooperation Between the State Committee of the Council of Ministers of the USSR for Science and Technology and Control Data Corporation (USA)

The State Committee of the Council of Ministers of the USSR for Science and Technology (GKNT) and Control Data Corporation (CDC), hereinafter called "Parties",

Considering that favourable conditions have been created for extensive development of a long-term scientific and industrial and economic cooperation;

Taking into account the mutual interest of both Parties in the development of such cooperation and recognizing the mutual advantage thereof; and

In accordance with Paragraph 8 of the "Basic Principles of Relations between the Union of Soviet Socialist Republics and the United States of America", signed on May 29, 1972, and Article 4 of the "Agreement Between the Government of the USSR and the Government of the USA on Cooperation in the Fields of Science and Technology" concluded on May 24, 1972;

Have agreed as follows:

ARTICLE 1

The subject of the present agreement has to do with a long-term program for a broad scientific and technical cooperation in the area of computational technology, and specifically;

To conduct joint development of a technically advanced computer;

Joint development and organization of the production of computer peripheral equipment;

Joint creation of information processing systems based on the technical means of Soviet production and on the technical means developed by CDC and the development of software means for these systems;

To conduct research in the area of (advanced) software improvement;

Joint development of Analog to Digital Equipment for control systems of technological processes;

Joint development of computer components, technical equipment for their production and the organization of production of these components;

Development of computer memories (based on large volume removable magnetic disk packs, and on integrated circuits, etc.);

Creation of equipment and systems for data communication;

Application (use) of computers in the fields of medicine, education, meteorological, physics, and etc.;

Preparation (training) of specialists in the area of computer technology.

The scope of this Agreement may at any time be extended to include other fields of specific subjects of cooperation by agreement of the Parties.

This Agreement is not limiting either Party from entering into similar cooperation in the said fields with a third Party.

ARTICLE 2

Scientific and technical cooperation between the Parties can be implemented in the following forms with specific arrangements being exclusively subject to mutual agreement between appropriate Soviet organizations and the firm of Control Data Corporation:

Exchange of scientific and technical information, documentation and production samples;

Exchange of delegations of specialists and trainees;

Organization of lectures, symposia and demonstrations of the production samples;

Joint research, development and testing, exchange of research results and experience;

Mutual consultations for the purpose of discussing and analysing scientific and technical problems. technical principles. ideas and concepts in the appropriate areas of cooperation;

Creation of temporary joint research groups to perform specific projects and to produce appropriate (joint) reports.

Exchange, acquisition or transfer of methods, processes, technical equipment, as well as of "know-how" and of licenses for the manufacture of products.

ARTICLE 3

The Parties have established that financial, commercial, and legal questions related to advancement of credit and payments for the delivered products and technical equipment, assignation of licenses and "know-how" as well as supplied services in performance of the various joint projects, relative to the present Agreement. shall be decided by separate agreements between appropriate competent Soviet organizations and the Control Data Corporation.

ARTICLE 4

For the practical implementation of the present Agreement the Parties shall establish a Coordinating group, from authorized representatives (coordinators) which shall determine and recommend a proper course for the cooperation and also to control compliance with responsibilities assumed by the Parties, and to take the necessary action for the successful implementation of the objectives of

the present Agreement. For the preparation of proposals for the concrete cooperative projects, there shall be established special groups of experts whose task it will be to determine technical and economic feasibility of the joint projects and to draw up action plans for their realization. The results of these working groups shall be turned over to the Coordinating group for their discussion and preparation of recommendations.

Recommendations and proposals of the Coordinating group will be presented in the form of protocols, which will be used as the basis for preparation of separate protocols or contracts.

Coordinating and working groups shall meet as frequently as is necessary to perform their functions alternatively in the USSR and USA unless otherwise agreed.

ARTICLE 5

Scientific and technical information furnished by one Party to the other under this agreement may be used freely for its own research, development and production, as well as the realization of finished products unless the Party supplying such information stipulates at the time of its transfer that the information may be used only on the basis of special agreement between Parties. This information can be transmitted to a third Party only with the approval of the Party which has furnished it.

Information received from a third Party which cannot be disposed of at will by one of the Contracting Parties is not subject to transmittal to the other Party unless mutually satisfactory arrangements can be made with the third Party for communication of such information.

It is contemplated in the foregoing that any organizations or enterprises of the USSR and any wholly owned or partially owned Control Data subsidiaries shall be not regarded as a third Party.

ARTICLE 6

Expenses of travelling back and forth of specialists of both Parties under the programs related to this Agreement, as a rule will be defrayed as follows:

The Party sending the specialists pays the round-trip fare.

The host Party bears all costs connected with their stay while in its own country.

The duration of the above visits and the number of specialists in each group shall be mutually agreed to by the Parties in advance of the visits.

Organizational questions, arising from implementation of this present Agreement shall be discussed and determined by the Parties in the course of working.

ARTICLE 7

The present Agreement shall continue for a period of 10 (ten) years and shall enter into force immediately upon its signature. It can be extended with mutual agreement of the Parties.

The cancellation of the present Agreement shall not affect the validity of any agreement and contracts entered into in accordance with Article 3 of the present Agreement by organizations and enterprizes of the USSR and CDC.

Drawn up and signed the 19 October 1973, in the city of Moscow, USSR, in duplicate, one copy in Russian and one in English, both texts being equally authentic.

For the State Committee of the Council of Ministers of the USSR for Science and Technology.

GVISHIANI.

For the Control Data Corporation.

ROBERT D. SCHMIDT.

Mr. CONLAN. I have been informed by a reliable source in our Defense R. & D. Establishment that the Defense Establishment suffers from a shortage of sophisticated computers due to the fact that their orders cannot be filled due to shortage of the equipment.

Can you reconcile this situation with your export promotion policies

Mr. NORRIS. Well, I have not heard that before. It is not my experience. It is not my knowledge.

Mr. CONLAN. OK. You have no knowledge of that and there are no orders to be domestically fillled with our Defense Establishment?

Mr. NORRIS. We would like to help them out.

Mr. CONLAN. Well, I would think if you were selling to the Soviets, the least you could do is to sell at home.

Mr. NORRIS. Absolutely.

Mr. CONLAN. My third question, the official Soviet news agency, TASS, announced in October that talks were underway for the sale of a high-speed Cyber computer to the Soviet Union.

Have you made any sale of a Cyber computer to the Soviet Union or to any of the other Warsaw Pact governments?

Mr. NORRIS. We sold two, yes, what we call our Cyber–62, which comes under the guidelines of the U.S. Government export control.

Mr. CONLAN. Was it a 62 or a 7216?

Mr. NORRIS. Two Cyber 72's in Poland and a 6200 in Russia to the nuclear research facility.

Mr. CONLAN. That has already been sold?

Mr. NORRIS. The installation has been made at Dubna and there has been one made in Poland and one is in the process.

Mr. CONLAN. Is that the one at Krakow?

Mr. NORRIS. Yes.

Mr. CONLAN. I was just curious because the Export-Import Bank release of March 22, this year, just about a month ago, indicated Eximbank would give a credit for 45 percent of the total cost, something around $1,236,000. Banker's Trust would provide a matching credit under Eximbank's guarantee for another $1,236,000, to finance the other 45 percent of it.

But I found it a little bit ironical in the explanation given about the deal by Eximbank, was that, quoting from the release, "the computer systems to be supplied by Control Data Corp. in Minneapolis would be for the use of Krakow high schools and scientific institutes."

Now I have been in Krakow, Poland, and how they could use a Cyber–7216, or whichever model it is, which is a very high-speed, large-volume, third generation, scientific computer, and start processing 94 million bits of information per second in the schools of Krakow, I find it difficult to understand.

Mr. NORRIS. Well, I think it has to do with what is a high school. This is a college; it is not a high school, and I think there is a great deal of confusion in the terminology.

Mr. CONLAN. Can they be used for military purposes at all?

Mr. NORRIS. Pardon?

Mr. CONLAN. Could such equipment as a 7216 be used for military purposes at all?

Mr. NORRIS. Well, to the extent any computer can, certainly.

Mr. CONLAN. Have the Soviets developed their computer technology on their own, or has their development in every instance of new technology been from abroad?

Mr. NORRIS. Well, I would say that all we have had the opportunity to look at has been their commercial technology. It is quite advanced. Some of my associates went through a computer factory at Minsk. I think the U.S.S.R. developed that technology through their own efforts and through cooperation with other socialist countries.

For example, the French granted a license to Romania. I think the French have been helpful. On the other hand, there is the case in Bulgaria that I mentioned earlier, of a factory that has developed pretty much on its own, memory technology and memory products.

Mr. CONLAN. Having also been in Bulgaria, I have been in all of these Eastern European countries when I was in the military service, and I seriously doubt that the Bulgarians are capable of really doing much in advanced computer work. Maybe building a slight memory bank, having purloined the information elsewhere in the world, they may. But running through your whole testimony here, that they have it and they are totally capable of doing this, from readings that I have watched and observed over the years from the first Rand Corp. study in 1963, and all the way up until the present, I just find it rather difficult to believe your testimony in this area when equipment can be used so directly for military purposes. I just find it rather difficult for me as a Congressman to be in a position where, if I were in the business world, to be wanting to sell that type of equipment to an opposing state which has indicated that they want to take control of the world and us in the process.

Does that ever bother you at night when you go to sleep?

Mr. NORRIS. Well, of course not. If it did, I would not do it. But beyond that, let's go back a little bit.

In our world today, even a little war takes such vast resources that almost anything has military value. I think that President Nixon recognized that point when he signed the technological agreements and indicated a desire to open up trade to a greater extent.

So anything will help a military effort, the issue comes down, I believe, to something which they do not have that would be significant for military effort. As I said earlier, I know of no instance where the Soviet Union has been unable to carry out a military project of significance for lack of computer technology, and I have asked for that in many, many cases among people that I know in the military, and I have never been advised of one single instance.

If you know of one, I would like to know it.

Mr. CONLAN. OK. If that information were presented to you or other companies, whether it be IBM or anybody else, who, by the sale of such equipment or technology, aided the developments of Soviet technology, then you would then back off from selling and giving them that assistance?

Mr. NORRIS. Certainly. I am as much interested as anyone else in doing what is in consonance with the best interests of the United States.

Mr. CONLAN. In other words, you would go basically by your conscience and the evidence presented to you, and not necessarily any mere political decision. Are you saying that if someone in the Government says it is all right, therefore, all of us in the private sector will act apart from any questions of conscience ourselves? I mean if the Government says it is all right, then you do not have any further questions of conscience about anything?

Mr. NORRIS. Well, certainly, but on the other hand, somebody has to make decisions and my conscience is not too relevant, and we have a President and he set the policy.

I went to an all-day meeting put on by the Secretary of Commerce, Mr. Dent. He gave me a button that urged me to earn wearing that button by increasing trade 10 percent, and in particular, to also increase trade with the socialist countries.

Now I do not know how to increase trade unless I sell what I have.

Mr. CONLAN. Well, you have answered the question then as to where the individual conscience and where the official governmental conscience interface, and you have said it is not particularly relevant to you. I recall that attitude in our history for a number of years, and I also recall reading about it in central Europe prior to 1939 and through 1945.

But in effect what you are saying is our questioning should be directed toward the administration and the responsibility of the Congress in this area, and then you in turn will follow suit having gotten your guidelines from the governmental agencies.

Mr. NORRIS. Yes, sir. I will follow the guidelines of my Government. I am not a politician. I am not a theologian. I am a businessman.

Mr. CONLAN. You just manufacture and leave the consequences as they fall. I have a real difficult time in this whole field, Mr. Ashley, having lived on both sides of the Iron Curtain in over 80 countries of the world, and I see the Communists' constant pronouncements and their constant aggressive movements. My complaint is with this administration and perhaps with Mr. Dent and the others on his persuasion because I wonder which one of them, in case of hostilities with the Soviet Union, is going to march up and interface with Soviet weapons first, because it is going to be fellows like us in the U.S. Congress who are going to be called on to have the young men of America interface against Soviet weapons, and I am wondering which of those in the manufacturing and the capitalistic field are going to volunteer to go out there. Because if that time comes and they do not volunteer, some of us are going to insist that they interface first before the innocent young men of this country have to take that role.

And that is the end of my statement and comments.

Mr. FRENZEL. Will the chairman yield to me for a minute?

Mr. ASHLEY .Yes.

I might say, Mr. Conlan, that there will of course be an opportunity for you to examine Mr. Dent directly, as well as the Chairman of the Export-Import Bank, representatives of our military establishment and the State Department. They will be the witnesses from whom we will be hearing in the days ahead.

If I might just ask a question. The Cyber series, as I understand it, makes use of the technology of the 6000 series. Is that correct, sir?

Mr. NORRIS. Yes, sir.

Mr. ASHLEY. That 6000 series in turn makes use of technology that was developed in the early 1960's.

Mr. NORRIS. Right.

Mr. ASHLEY. That technology, as I understand it, is available on a worldwide basis.

Mr. NORRIS. Correct.

Mr. ASHLEY. The kinds of arrangements that you enter into with the Communist countries was referred to in your testimony, I believe. The

use of this technology in particular, I believe you said, has been applied to large-scale educational and medical undertakings, is that correct, sir?

Mr. NORRIS. Yes.

Mr. ASHLEY. Perhaps it would be edifying if you elaborated on that just a moment further because there seems to be some suspicion that this might be some kind of a subterfuge. I am particularly aware of the suggestion which we have gotten from other members of the subcommittee that it simply stretches the imagination too far to suppose that this kind of computer can be used for peaceful purposes in a technical school in Krakow.

What kinds of work, specifically is that computer doing?

Mr. NORRIS. Well, there are two questions there, two aspects of it. Could I just digress for a minute and speak about computer-based education?

Mr. ASHLEY. By all means.

Mr. NORRIS. Which is really the relevant issue with respect to my earlier testimony.

About 10 years ago, Control Data entered into a cooperative endeavor with the University of Illinois to develop what they called the Plato computer-based education system, and work has gone on and the University of Illinois now has most of their educational material on the computer. About 1 year ago we felt that this technology had advanced far enough to where we could use it internally in our training and that we could start offering it to other industrial companies on a service basis and to other universities, if they wanted to install their own system.

Well, it still needs a great deal of development. It is still very costly, and in this country it is very difficult to get anybody to think in terms of change in the educational process. So we felt that here was a situation in the U.S.S.R. where they wanted from us some important technology and we could see an opportunity there where we could get back from them a program where they could advance the use of the computer in the educational process itself. We were encouraged to discuss this with them and we have been asked a number of times to make demonstrations. We have been asked by the State Department. We have been asked by the National Science Foundation.

We set up a demonstration in Moscow of the Plato system, I believe it was in December. The University of Illinois helped us in this regard and the National Science Foundation helped us, and the program was witnessed with a great deal of interest over there.

So we have reason to believe that it will be possible to set up a project where we could get back valuable technology, in other words, technology that is worth more than what we are giving them. That is what I mean by participation in education.

Mr. ASHLEY. Excuse me. Mr. Frenzel, please.

Mr. FRENZEL. I just wanted to make a point which the chairman has already emphasized, and that is that the Cyber–72 is based on the technology of the 6000 series, of which the first model was introduced in 1963. I believe that your 6200 was introduced in 1966, and the Cyber–72 is slightly faster by a factor of 10 or 15 percent.

But it is pretty much that same kind of technology which was 5 years obsolete when it was introduced in 1963. So to describe this as some kind of fancy, high-grade technology that the world does not understand—or nobody but us does—I think is overstating the case.

I would comment just shortly, Mr. Chairman, on the subject of confrontation with the Soviets.

There are some of us, I think, in Congress who believe that mutual trade for the advantage of both nations is perhaps the most significant thing that we can do to reduce the tensions, and to reduce the probability of that confrontation in the future. I do not think one can overlook completely this aspect of trade. It is far easier to love our neighbors if both of us can profit through the arrangement.

Mr. ASHLEY. Well, rightly or wrongly, if I may say, that is the policy of the United States and it has been for some years.

Is that not your understanding?

Mr. FRENZEL. That is my understanding.

Mr. ASHLEY. It is a policy, I might say, that is not a unilateral policy on the part of the White House. It is one in which the Congress has most certainly concurred.

Mr. NORRIS. Mr. Chairman, I did not answer the other part of your question about the computer at Krakow. If you want, I can give you two pages that would explain it.

Mr. ASHLEY. If you would submit that, that would be good.

[In response to the request of Chairman Ashley, the following information was submitted for the record by Mr. Norris:]

JAGELLONIAN UNIVERSITY,
INSTITUTE OF PHYSICS,
Krakow, Poland, April 8, 1973.

DEPARTMENT OF COMMERCE,
Office for Export Control.

END USER STATEMENT

The Jagellonian University was founded in 1366. At present it contains 5 departments:

The department of philology, The department of biology, The department of Mathematics, Physics and Chemistry, The department of Law, The department of History and Philosophy. The main activities of the University are concentrated on students teaching and scientifique research. The CYBER 72 will be used for the following purposes:

1. Numerical scientifique calculations in various research projects carried out at the University.
2. Training of students.
3. Administration.

The most important research projects for which CYBER 72 system will be used are listed below:

1. Calculations of the structure atoms, molecules and nuclei.
2. Evaluation of experimental data from different type of optical spectrometers including a Fourrier spectrometer.
3. Calculations of structure of crystals and interpretation of X-ray exposures.
4. Interpretations of photographs from bubble channels and results from spark chambers.
5. Statistical evaluation of experimental results in biology and geology.
6. Studies of thescattering of alpha particles at backward angles/joint project with the University of Maryland supported by N.S.F. under PL/480.

The Jagellonian University assures that all of the equipment connected with CYBER 72 installation will not be used for strategic or military purposes. All programs and data processed at CYBER 72 will be made available upon request to the representative of OEC or CDC on the understanding that the privacy of all data transmitted to them will be respected and no harm will be done to the patent and publication rights of the user. The access to the terminals will be limited to the members of the Jagellonian University staff only.

DUCJVER JAICSY.

Mr. CONLAN. Mr. Chairman, something eludes me here in the testimony. He has been saying all afternoon that the Soviets have all this technology and can do it all themselves. But it may be just a little bit too complex for me to figure out.

Why, if they have it, are they coming to us to buy it?

Mr. NORRIS. I am sorry, sir. I did not say they had it. I said that they provided us with the environment whereby they could put in a large computer-based educational system or health care system and help develop the applications software, help develop other aspects of the application.

Mr. CONLAN. You think the applications of the Soviet socialist education system will be widely used or desirable to be used in the United States?

Mr. NORRIS. Well, you teach pretty much fundamentally the same the world over.

Mr. ASHLEY. Well, that would be a business decision that you have made?

Mr. NORRIS. Yes.

Mr. ASHLEY. Mrs. Sullivan?

Mrs. SULLIVAN. I am going to ask to be excused, Mr. Chairman. I was not able to be here while the testimony was being given and I have not had a chance to read it.

Mr. ASHLEY. Of course, Mrs. Sullivan, surely.

Mr. Norris, if there are no further questions, we will excuse you, and we thank you very much, and Dr. Hogan. Dr. Hogan, we were delighted that you were here with us.

Mr. Scudder, I wonder why there is such a shortage, when we send so much wastepaper in this country to landfills for disposal?

Are we talking about a real shortage or a shortage that exists because our collection system is not what it might be?

Mr. SCUDDER. Well, partly both, sir. The EPA has estimated that it would take 5 years to update our collection system. We are doing everything that can be done to update it.

However, of the amount of paper that goes to a dump a great deal is never going to be collectible. The authoritative work on this subject, for example, states that it is not economical for a wastepaper dealer to operate in a city of less than 50,000 people, and in cities as small as that that it can only be a part-time operation, and that it takes a concentration of a quarter of a million people to give a wastepaper dealer full-time work.

When this statistic is figured into the supply, it develops that in California or on the west coast, we already are collecting more than 80 percent of all the paper that is considered to be collectible. Using percentages that might be available in 1985, it is, in short, a real shortage. The price is high. Everything is being done to collect it that

can be done. But the increased collections do not keep up with the increased exports.

Mr. McKINNEY. Mr. Chairman, would you yield here?

Mr. ASHLEY. Sure.

Mr. McKINNEY. This subcommittee finds itself, and I think the Congress, in a fascinating situation. Let us use the term, "mined." We are beginning to find out now that the price of oil has gone to the Moon, that all of those capped-off wells in Texas are beginning to belch forth oil again. We have begun—we find out—we had the ferrous scrap metal people here, and we are confronted with—I think I read in the papers the fact that 78,000 automobiles are abandoned in New York City alone. In one housing project of Bridgeport, Conn.—I have been trying to get the city Federal funds to help them with wreckers just to pull the derelict automobiles away.

I would love to have your feelings on what it would cost. I think the chairman is interested in this, too.

What would it take? Is it cost? Is it organization? Or is it what, to have us properly "mine" these materials for recycling

I sit here fascinated as a Congressman sending out mail because my constituents demand it, printed across the bottom of this that this is made out of recycled material, because if I did not do that in Fairfield County I would not win a dogcatcher's election. It costs me $1.18 a ream more or something, $1.18 for some quantity more, and to buy it to try and help.

I think that the chairman and I both want to know, what does it take?

You obviously cannot answer the questions about the automobiles and the old iceboxes, things of that type. But you can about paper. For instance, I just attended an opening of a recycling center in Westport, Conn., where the town thinks they are going to make money. They are going to collect all the bottles in one can and all the paper in another thing, and all the tin cans and aluminum cans in another. They are going to haul it off in these great big metal things, and sell it to the scrap dealers when they reach the top.

If every town in America did that, would that vastly increase the supply as well as drop the price? Or is there not enough money in it to make it worthwhile?

Mr. SCUDDER. I do not believe, sir, that that is the way that the development will go. There are two elements in the garbage flow which make up almost 50 percent of the total flow, and these are newspapers and cardboard. It is easy to preseparate those. The bar to collecting more paper by this means is just the difficulty of persuading a municipality that it must pass an ordinance saying that citizens will put out their papers separate from the rest of the garbage.

An EPA study reveals that it takes a minute and 3 cents a week for a householder to bundle his newspapers separately. It is no burden. They have to be put in the garbage because they are not there to begin with.

This material is very valuable today. Cities are getting $40 a ton, and this kind of thing, for these papers. The newspapers, if they are a fifth of the garbage, as they sometimes are, means that the city then

needs one less garbage truck. They have savings. They have savings from their dumping costs.

The same thing in a way is true of cardboard, although that is generated mostly in retail houses. The rest of the material is going to go to separation centers where the paper that is left will be bundled and taken off a conveyor going into the center. The material then will all be shredded. It is air classified.

The heavy fraction, they magnetically separate the steel. Aluminum, there are many ways to separate it—flotation, electrostatic, and other methods. The light fraction is blown off and this can be used for fuel.

These systems do not work at profit. EPA again feels that a city will go for one of these systems where it is already costing it $5 to $8 a ton to dispose of their garbage. Otherwise, they are asking the citizens to take on an increased cost to do something that the citizens may not think is worthwhile, although in the East many cities are simply running out of space to dump their garbage and will have to do this kind of thing.

Mr. McKinney. There are seven I can mention in the fourth congressional district.

Mr. Ashley. Let me ask you, Mr. Cooperman, and I must say I was pleased with your testimony, because you offered some very thoughtful suggestions with respect to criteria and standards that this subcommittee should consider with respect to the Export Administration Act.

First of all, would there be a danger with regard to the criteria to be taken into account in arriving at a determination of whether or not to impose export controls?

Would there be a danger that the procedures that you suggest would lead to something in the nature of a massive Government program of export surveillance and control?

Mr. Cooperman. Thank you for your kind remarks, Mr. Chairman.

I do not believe so. I think the criteria we are trying to establish will give us some mechanisms that would obtain only when the economics of this country, the economics of foreign countries involved with us would require it. I do not believe that we would be looking down the road at a great deal of bureaucratic development.

Mr. Amdur, Mr. Chairman, who is with us, has an observation he would like to offer if he might.

Mr. Ashley. By all means.

Mr. Amdur. Although we submit figures monthly to the Bureau of Mines on our scrap intake and our production of finished ingot alloys, and this is done by all the smelters in the country, it is only after approximately 2 months that the Bureau learns, after compiling their figures, how disastrous a period we have gone through. I feel that a more legitimate way of finding out what is going on immediately would be to get the Commerce Department or some other governmental agency to require first a firm commitment order from a foreign buyer, and second, that he require an export order of a license to export, so that the Government agency would know immediately what is being exported instead of waiting 2 months until the figures are already in and the danger is already upon us.

Mr. ASHLEY. We have had discussions, of course, about the language in the act and suggestions with respect to changes going to the definition, really, of what we mean by excessive foreign demand.

What is your thought on that, Mr. Cooperman?

Mr. COOPERMAN. I do not want to beg the question. Mr. Amdur deals with this every day in his business because his supplies vary to some extent with respect to what foreign demand is.

I do not believe there is a finite figure that you can establish as excessive foreign demand for this country. I think it is a function of a number of aspects of the availability of scrap, which is price-inelastic in the sense that you do not add to the total amount of aluminum scrap available simply by increasing the price.

But again, if I may, Mr. Amdur I think can contribute to the answer.

Mr. ASHLEY. Sure.

Mr. AMDUR. There are a number of reasons why we get sharp demands in the export of aluminum scrap and ingot. It could be for strikes in foreign countries. It could be for disasters. Or it could be just that the general expansion of the foreign industries are demanding more of our raw materials. At the same time, our own demand and expansion is going forward, and the only way that we definitely know when we have an excessive demand from overseas is when we have difficulty in obtaining our raw material.

It shows up in higher prices. It shows up in inability to manufacture the orders that we have on hand. At one point we were off 25 percent in our production because we just did not have the material to operate.

Mr. ASHLEY. It just was not there?

Mr. AMDUR. It was just not there, and it was not a question of price. If you have so much material that you can bid on from a pile, one time somebody will be the high bidder, the next time somebody will get it. But there just is not enough to go around. Consequently, you cannot set up an algebraic equation and expect that when you put all of the components in the equation, automatically you are going to ring a bell and say, now we have an excessive demand.

Mr. ASHLEY. Would you agree with that, Mr. Scudder?

Mr. SCUDDER. Yes, sir.

Mr. ASHLEY. Again, Mr. Cooperman, in your suggestion of procedural aspects for an export control program, you suggest that the Secretary be required either to institute an export surveillance procedure and international consultations, or institute a system of export controls, or report to the Congress the reasons for his failure to act.

Why did you include the third, the reporting of the reasons of his failure to act? Why should we permit the Secretary to fail to act?

Mr. COOPERMAN. We would be certainly willing to consider an amendment in the other direction, Mr. Chairman. But in all candor, we felt that there are many forces upon the U.S. Government. We are dealing in an international commodity and there may well be countervailing or even overriding considerations that this Government at the level of the Executive and at the level of the Congress must consider beyond the immediate problems and demands of the aluminum indus-

try. We thought it would be wise and necessary to have this more or less veto power.

Mr. ASHLEY. In other words, he can come back to Congress and say to Congress, this is the situation?

Mr. COOPERMAN. Correct. We feel that the decision has to come from here, and that the Congress ought to have an opportunity to review the decisions or the lack of decisions on the part of the Secretary.

Mr. ASHLEY. Well again, I want to commend all of the witnesses. But those of you who are particularly interested in the short supply situation, I thank you, Mr. Scudder and Mr. Cooperman and Mr. Amdur. You have been very helpful. You have come up with some very thoughtful and thought-provoking suggestions.

Mr. MCKINNEY. Mr. Cooperman, you were saying very politely what the ferrous metal people said a little more impolitely last week, and that is, we think we have the right to know if export policy is part of foreign policy, or is it a part of trade policy. You can understand what you are dealing with.

We have been having a discussion up here, as you probably noticed.

Not to be rude, but as a part of argumentation, do you feel—I feel at least, and then I will let you counteract to it—I feel that we are suffering an extra increase in inflation in this country due to an artificial shortage in this country of raw materials, due to the mining of the rest of the world of our materials and scrap materials.

The question then is, If we were to set this domestic level of necessity above which we could not export—in other words, we could export above it, but we could not export down into it—would we have a normalization or a slight normalization of the price factor?

Mr. COOPERMAN. It is true, Mr. McKinney, that there is an inflation factor as a result of the ability of European and Japanese companies to come into this country, particularly in late 1972 through 1973, as we devalued the U.S. dollar, and bid up the U.S. price. But it was not a speculative action on the part of these countries. It was an action taken because they were literally short of materials.

If I can pursue it just for a moment, in Japan they are very short of electricity. Their primary aluminum industry has suffered considerably in its capacity. It takes 7 kilowatts to produce a pound of primary aluminum. It only takes 20 percent of that to produce a pound of secondary. The Japanese Government has had to reduce the availability of electricity to the primary aluminum industry.

At the same time, they have given a high priority to the automobile industry. The automobile industry has a requirement for aluminum. Now where are they going to get the aluminum?

They turn to the scrap market in this country. But I am not willing to concede that it is an artificial inflationary concept. I think that it is a part of worldwide trade and that we must operate in as sophisticated a manner as possible with respect to worldwide trade.

Now, I am not certain in my own mind, nor do I believe the members of my association are certain, that at this time the only answer is an embargo.

Mr. MCKINNEY. I do not believe in embargoes. But I was just wondering about restraints at that level.

Let me ask you another question. The environmentalists—it has nothing to do with this subcommittee, and I hope the chairman will bear with me—the environmentalists are telling us that in my adopted State, Vermont, for instance, there is a 5-cent charge on every can and a 10-cent charge on every large bottle of soda or anything else that you get out of the store. You have to pay 5 cents extra. When you take it back you get your 5 cents back, and so on down the line.

Would, in the condition we are now in where things are—you know, you use it up, burn it up, throw it away stage, that we have been in for so long, which has cost us so dearly—would a national policy of a recycling—call it tax or recycling figure which would in other words require—well, let me give you an example.

Even with an automobile in Bermuda, which has limited space, for a different reason you cannot buy a new car until you have proven that you have sold your old one to a qualified carowner, that is, one with a household, or that you have exported it off the island. Then you can buy a new car.

Now, it has been suggested that we put a tax on cars, which would take care—in other words, it would make it profitable not to leave the thing lying on the street and to get it to a metal yard. A tax on cans which would make it profitable to get it back to where it should go.

Would this greatly alleviate, do you suppose, part of this problem? In other words, we would get a higher return back.

Mr. COOPERMAN. Congressman, we really do not know. I am not so certain that Mr. Amdur, who is a member of the association would agree, but we really do not know, in this country how much scrap is lying around the country and not being reclaimed.

Mr. MCKINNEY. We heard an estimate of 780 million tons last week. We heard it last week from the ferrous metal people. That was just ferrous scrap.

Mr. COOPERMAN. Well, we depend upon old scrap, discarded consumer products, for 25 percent of our product. I am aware that there is legislation pending before other committees with respect to tax allowances and tax credits for the use of recyclable materials.

The technology of getting the scrap and bringing it in and processing it prior to remelting is, frankly, of more concern and more consideration to us than legislative inducements. Now, I will, in Mr. Amdur's behalf, do a little boasting. He may want to himself. But he has attempted to increase the capacity of his existing facility by putting in a rather expensive piece of equipment to preprocess scrap before it goes into his furnaces. He was not able to use it fully, because too much of the scrap was being sent abroad to satisfy foreign needs. But that is the kind of step that has to be taken in this country.

The scrap dealers, the people who go out and buy scrap, the manner in which they handle it in their scrap yards—just as an aside, in the wintertime when it gets very cold, if it is a very cold winter some scrap dealers do not want to handle aluminum for the simple reason it is cold to handle. You cannot move it with a magnet. So there can be fall off in the handling of aluminum scrap during the winter months.

Technologies have to be established to overcome that. So that I believe that there is as much to be done in the area of the handling of scrap, the finding of scrap, and the processing of scrap.

On the other side of the coin, along your lines of consideration, we have even talked about trying to duplicate the process of political contributions or contributions to U.S. elections, through an indication on personal income tax forms, duplicate that process for anyone who returns an automobile or other returnable goods for scrap, might receive some tax benefit as an inducement to U.S. citizens to recycle materials.

Mr. McKinley. You know, I really have no expertise in the business. But I sat here and listened to the ferrous scrap people tell us this alarming story of shortage, and all you have to do is get on a Metroliner and go from here to Bridgeport, Conn., and see what an ungodly mess we have made out of this country, because it is covered literally, covered, out of every window, with scrap just lying all over the place. It would seem to me that we have ignored technology, just as we have in the energy business, because we had too much of everything. Maybe we should get the technology as well as making it worthwhile for John Q. Citizen to get the scrap to where it has to be taken.

Mr. Cooperman. There is a lot of scrap in the country, and easily viewable out of train windows. But it is a high cost item when there is one car littering someone's lot. It is rather a pity that we have to wait until foreign demand drives up the price to attract that high cost car into the recycling system.

Mr. Cross. Mr. Chairman, can we be excused, please, if there are no questions for us?

Mr. Ashley. Mr. Frenzel, do you have any?

Mr. Frenzel. I did want to ask a question of Mr. Cross. Part of his testimony related to license procedures, which he indicated were too cumbersome, and took a lot of time and trouble. One of the things that this subcommittee is going to have to make a decision on is whether we require the new reporting process to which you object. If so, do we condition it in such a way that the Department does not lay an onerous burden on you? I simply want to confirm for the record that the material that is required to complete the licensing process is, in your judgment, unnecessary and unduly cumbersome.

Mr. Cross. Speaking for my own company, at the present time we have validated licenses for practically all types of machine tools that we sell. So, unless the procedures are tightened up and license requirements are reimposed, my own company is currently not concerned with the problem.

When we did have the problem we were very much disadvantaged, not by the fact that we had to make an application for a license, but the time that was required to get decisions.

Mr. Frenzel. If we had this reporting requirement and we stipulated some minimum things and stipulated that the Department must act within a certain time, and provided for the confidentiality of those records, might I assume your objection would be less?

Mr. Cross. Yes, they would be less, of course.

Mr. Frenzel. I thank you.

Mr. Ashley. Thank you, Mr. Cross and Mr. Gray. We appreciate your being with us this afternoon. Thank you for your testimony.

Mr. Frenzel. Might I ask Mr. Gray a question?

He indicated that Russian business resulting from the exposition was $5 million immediately, and perhaps $90 million spillover.

Can you tell me if all of that is expected to be financed through Eximbank or if not, what proportion?

Mr. GRAY. No, I cannot tell you. I have surveyed the exhibitors in the exhibition. The question I asked them was, do you anticipate any financing problem. I believe that some of the projects will require Eximbank financing. But I would say a major portion of it would not.

Mr. FRENZEL. I thank you.

Mr. ASHLEY. Mr. Gray, I met a friend of mine this morning in the airport. He imports the very kinds of tools that your association manufactures. I am sure he was at the same fair that you attended.

His indication to me was that there is a tremendous vitality in the capital goods industry.

If that is so, what is the significance of the $5 million spot sales?

I mean, is it true, as he indicated, that on a worldwide basis there is enormous interest at this time in delivery as fast as possible for the very kinds of tools that are made here, that are made abroad, and that they are in demand at this time?

Mr. GRAY. Yes, sir. That is true. The American machine tool industry, as you probably know, just came through its worst depression in 1970 and 1971 where they had to lay off a lot of their employees and their supply lines were interrupted. Following that there was a tremendous increase in demand, both domestically and in some of the efforts that we have had overseas that have come to fruition.

We have had a difficult time finding some components that are in very short supply, and in finding the skilled workers that we need. But overseas business is important, because many times in the past the overseas demand runs countercyclical to the demand here at home, and foreign business has meant the difference between life and death for a number of machine tool companies.

So we believe that, while at the present time we may not need it, the time is coming down the stream when we will indeed need foreign business.

Mr. ASHLEY. When the cycles will not be quite so much in tune as they are at the present time?

Mr. GRAY. That is right.

I would like to add one comment on the export control regulations. I do not think we want to leave the subcommittee with the impression that there is no problem with export control regulations. There is a problem, insofar as the COCOM export control regulations are concerned. The difficulty is that there is not a uniform interpretation by the various countries of those regulations, and we believe that that is one of the problems that we have with the export control regulations on machine tools.

Mr. FRENZEL. Mr. Chairman, if I might comment on that, I fully agree with the gentleman. I am glad somebody made that distinction, and it has long been my feeling that the joint review board is totally dominated by our armed services, as I suppose it should be. But if ever there is the tiniest shadow of a doubt, the decision is either de-

ferred or the decision is negative, and we lose the sale to a foreign competitor.

Mr. GRAY. Just one comment that was made by one of the exhibitors at the STANKI show. He said:

> Problems with export control regulations all relate to the fact that NC technology is finding its way into East Europe. As U.S. builders are not allowed to ship machines with three axes controls to the U.S.S.R. they will buy from other sources or will make their own. The Soviets are very close to being self-sufficient We have Olivetti catalog printed in the Russian language and covering three and four axes full contouring capability. Auctor and Horizon models. It seems odd that they would do this in face of present export control level on NC equipment.

Mr. MCKINNEY. This brings up a point. Three years ago we developed a heat-sensing satellite, a heat sensor for directing satellites around the country, using fairly common technology, in a small company. The Defense Department had cut the order and left them with one and a half of these very expensive items.

The French-British consortium requested permission to buy these. The Defense Department said they were of a strategic value to the country. Yet, within 4 months West Germany had agreed to build this very same unit, and the United States lost the sale.

It seems to me to be one of the most incredible things that goes on, is that there is not the broad-sense judgment being made that the product is available somewhere else and someone else will get the money for it.

Mr. ASHLEY. Yes; I think there is no question but that this is an area that we are going to have to redirect attention to, particularly when the Commerce Department people come before us. We have in the past, we have gotten some results in the past. But obviously the problem remains.

Are there any further questions?

Mr. FRENZEL. Mr. Chairman, I was just going to slip out. I am sure that anyone who needs to go should go. I had a question to Mr. Cooperman with respect to the restriction of export of raw materials.

How do we pay for the energy that we are going to need?

This year alone perhaps our bill is going to be around $20 billion. While some consider wheat to be a raw material, I consider it to be one of our most scientifically or technologically developed products, because we know how to build protein better than anybody else. If we do not trade wheat for energy or whatever else we need, how are we going to take care of ourselves in the future?

Because if somebody decides, who is shipping us—what is your raw material called, bauxite?

Mr. COOPERMAN. Bauxite.

Mr. FRENZEL. We do not produce much of that locally, do we?

Mr. COOPERMAN. No, we do not.

Mr. FRENZEL. If somebody decides they want to restrict our raw material from us, what do we do in that case? We are not wholly self-sufficient in this little, tiny globe we live on. What happens then?

Mr. COOPERMAN. Congressman Frenzel, primary aluminum is outside of our ken, I can give you some answers, but I do not think they would be as educated, perhaps, as people would be able to give you from the primary field. All of our production is based upon scrap.

Seventy-five percent of that scrap is generated by fabricating operations on primary aluminum. So to that extent we are concerned with primary aluminum.

Bauxite is the ore from which primary aluminum comes, and we are all becoming increasingly aware of the fact that most of the bauxite that is required in this country comes from outside the country. But again, I want to get back to technology. There are some useful bauxitic clays in these United States, some. There are tremendous quantities of bauxitic clays in these United States. If they became economically feasible in terms of creating alumina or going directly from bauxite to aluminum, we would not be a bauxite-poor nation.

Now, the technology is expensive. Some of the major producers are operating on it. Alcoa, for one, is concerned with it. Their process would also use less and less energy. It begs your question, sir.

I cannot say to you that we must make the trade-off that I believe you are seeking. That we have got to keep the energy here we need for alternative uses for producing aluminum. If you are suggesting that what we need to do is find a way to equate and find an equation for how much power we give away for how much bauxite we are going to get back, I submit to you, sir, that we cannot do this solely in the vacuum, if you will, of the United States and its demands. We have got to do it in terms of worldwide demand, and I think you will find this confirmed by the financial institutions that must finance new primary aluminum capacity.

They look at the return on investment for a primary facility, not only in this country but in other countries. Of course, one of those factors is, how close is the primary facility to not only bauxite, but to power to convert the bauxite.

Mr. FRENZEL. Well, I thank you for that interesting answer, and I do appreciate your attempt to give us a closer fix on how we might structure the definition of a trigger mechanism to kick in some kind of control system. I think you have probably given us more help than anybody.

I invite you to comment for the record, because I have to go. But your industry seems to illustrate that problem, and I think you have responded very well. Another problem, of course, is, that Venezuela wants ferrous scrap from us and we have been a supplier of ferrous scrap to Venezuela. We no longer supply them so they come to us and say, "why should we send you that oil you need when you will not give us the ferrous scrap that we need."

Increasingly, it seems to me, we are forced into the understanding that there is more to the world than the United States.

I would appreciate any remarks you have for the record on that because I must go. But again, I want to thank you for some of the best thinking that we have had on this particular subject.

Mr. COOPERMAN. Thank you, Mr. Frenzel.

Mr. MCKINNEY [presiding]. Thank you all.

I know it is late. I hope you can all get home.

The subcommittee will stand in recess until 10 o'clock tomorrow morning.

[Whereupon, at 4:45 p.m.. the subcommittee was adjourned, to reconvene at 10 a.m. Tuesday, April 30, 1974.]

INTERNATIONAL ECONOMIC POLICY

TUESDAY, APRIL 30, 1974

House of Representatives,
Subcommittee on International Trade
of the Committee on Banking and Currency,
Washington, D.C.

The subcommittee met at 10:20 a.m., pursuant to notice, in room 2128 Rayburn House Office Building, Hon. Thomas L. Ashley (chairman of the subcommittee) presiding

Present: Representatives Ashley, Rees, St Germain, Hanna, Blackburn, Brown, McKinney, Frenzel.

Mr. Ashley. The subcommittee will come to order.

Our first witness this morning is the Honorable William J. Casey, President and Chairman of the Board of Directors of the Export-Import Bank of the United States. Accompanying Mr. Casey is Walter C. Sauer, first Vice President and Vice Chairman of the Board of Directors; Warren W. Glick, acting Executive Vice President; J. E. Corette III, general counsel; and Patrick Dugan, senior Vice President and Treasurer-Controller.

Mr. Casey, we are delighted to have you here this morning. We have been taking testimony for some days now, much of which is centered on the Export-Import Bank. So we are pleased to be able to hear your testimony and to, at the appropriate time, direct questions to you. As I have indicated, the subcommittee will hear from two administration witnesses this morning, the first being Mr. Casey. After Mr. Casey has been heard we will hear from the Honorable Jack F. Bennett, Under Secretary of the Treasury. Each of the witnesses will be available for questioning by the subcommittee. Each of their prepared statements will be included in the record.

Mr. Casey, if you are ready to proceed.

STATEMENT OF HON. WILLIAM J. CASEY, PRESIDENT AND CHAIRMAN, EXPORT-IMPORT BANK OF THE UNITED STATES; ACCOMPANIED BY WALTER C. SAUER, FIRST VICE PRESIDENT AND VICE CHAIRMAN, BOARD OF DIRECTORS; WARREN W. GLICK, ACTING EXECUTIVE VICE PRESIDENT; J. E. CORETTE III, GENERAL COUNSEL; AND PATRICK DUGAN, SENIOR VICE PRESIDENT AND TREASURER-CONTROLLER

Mr. Casey. Thank you, Mr. Chairman. It is a privilege to appear before your subcommittee in behalf of H.R. 13828, to extend the charter of the Bank, to increase the Bank's authorization so that it

can support the rising level of exports which we need to pay for the things we have to get from abroad, to protect jobs at home, and to maintain the value of our own money.

As you know, Mr. Chairman, I am new to the Bank. I have been seeking to assess the Bank's operations and its role in the changing world economic order. I have the benefit of testifying today after a good many knowledgeable and experienced witnesses have appeared before your subcommittee and Senator Stevenson's committee on the other side of the Capitol. I will try to take advantage of this by addressing the broad spectrum of concerns which have been expressed before these committees.

This has resulted in a rather lengthy statement which I prepared. To save your time I would like to submit my prepared statement for the record and hit the high spots in my oral statement. Let me start with a few words on the state of the world economy and the United States position in it.

We all remember the acute concern we had only a year ago when the United States was experiencing a financial hemorrhage arising primarily from the fact that we were exporting $6 billion less than we were importing. We saw the dollar lose over 20 percent of its value in relation to the currencies of some of our major partners. This costs the American consumer billions of dollars in higher cost for imported goods. It cost additional billions in higher prices for American-produced goods as buyers all over the world found themselves able to get more for their own money by competing with the American consumers for American goods on world markets. That situation was dramatically reversed within a year. Today we look back at a favorable trade balance for the previous year. The American dollar has regained some of its strength. The Eximbank, in dramatically increasing the volume of exports it was able to support by over $7 billion—over 300 percent—from fiscal years 1969 to 1973, made a contribution to that turnaround, to the value of our currency and to our trade balance which was worth billions of dollars to American consumers.

Now the situation shows signs of changing. In March we slipped back into a trade deficit and we must deal with several new developments which are now dominant in the world economic order. Let me cite a few of them.

First, the sharp increase in the world prices of oil and other vital materials which has suddenly disrupted the established trade patterns everywhere; second, the rising worldwide inflation, which the oil price crunch will intensify and which now seriously distorts all trade projections based on past dollar values; third, actual or impending shortages of metals and other raw materials, and of fuel, fertilizer, and food; fourth, a rising use and need for credit in world trade accentuated by the financial squeeze in which sharply increased oil prices and general inflation have placed so many countries; fifth, the increased importance of high technology products and large engineering projects which have a special need for financing, which the world needs to meet shortages and which the United States can provide and must sell in order to pay higher prices for the oil and raw material which is needed to keep our economy prosperous; and sixth, other nations see their reserves falling and they will be pushing their exports

harder to offset their higher oil import prices. This means tighter markets and sharper competition for American exporters.

In short, a $15 billion jump in our oil costs plus other price rises have increased our export needs heavily at the very time our exporters must look harder for overseas customers and then compete harder to get their business.

All this increases the reliance of the American trader on the services of the Export-Import Bank. With money flowing in enormous volume to the oil producing countries, the rest of the world must depend more on credit financing, and the attractiveness of the credit offered in various countries will be a much larger factor in sales competition.

The other new major trade influence, inflation, also means heavier drains on the Bank's resources which we hope this subcommittee will take into account. Obviously, more dollar credits will be needed to achieve the same level of exports, to say nothing of the need for more exporting.

Now the Bank is an unusual thing. It is a Government agency which year after year does not ask the taxpayers for any additional money; indeed, it distributes $50 million in cash dividends to the Treasury to reduce the taxpayers' burdens each year. It earns another $70 to $90 million which is put back into reserves and the ability to finance a rising level of exports. The $10.5 billion of export sales supported by the Bank in the last fiscal year translates into almost three-fourths of a million full-time America jobs. Over the life of the Bank, the $70 billion of export sales that it has supported have produced about $16 billion of tax and other revenues to the Federal Government as well as additional revenues to State and local governments. At the same time, American business has derived over $5 billion in profit from these export sales.

In doing this job the Bank has had some losses, but its record on writeoffs has been better than the largest and most successful private commercial banks in the United States. We have written off only 2 cents on every $100 of loans disbursed.

Like other banks, we must reschedule loans, including the recent rescheduling of Chilean loans. Even if these rescheduled loans were included, our total writeoffs would be less than 5 cents on every $100 of loans, and this compares with the average writeoff of 50 cents per $100 on international loans of the largest private commercial banks in the United States. So the Bank has a good record in assuring repayment and collecting on the loans that are made.

Now American exporters, as you know, must compete in world markets with other exporters who are backed by their government with low-cost financing. You have given the Bank a mandate to provide to our exporters financing which is competitive with that made available by the official export credit agencies of other countries.

Because we aim both to compete and to operate at a profit, our overall cost of money is a prime factor in setting our interest rate. Presently, our Treasury borrowings cost overall 7.5 percent; our debentures cost 6.5 percent; and our participation certificates, 5.1 percent. The weighted cost of all the money we use is 6.8 percent, which is less than our current lending rate of 7 percent.

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The official export credit agencies of other countries provide a lot more financial support to their exporters than we do. Our most recent figures indicate that Western Europe and Japan covered about $65 billion of export shipments through official support agencies against about $7 billion of export shipments covered by the Bank in 1973. The export credit agencies of England, France, Japan, and Germany alone provided cover for seven times as much as shipments as did the Export-Import Bank. Outstanding commitments for these export credit agencies are more than three times as high as this Bank's.

We tend to lend on longer terms, thus the disparity between seven times the cover and three times the outstanding commitment. That is appropriate to the special skill and the special advantage that the United States has in world trade. We are good at high technology items. We are good at large projects, and these call for financing having a somewhat longer term than the shipment of manufactured goods.

We are in a changing and highly competitive world, and the techniques of putting together an attractive export finance package vary a good deal from country to country. We think that overall we have a competitive range of programs, but other countries can use techniques and facilities supplementary to their export credit agencies to create competition that we must work very hard to match. They offer line of credit facilities. They can offer a mix of aid and trade credits. They can make bilateral arrangements for large credits on special terms. They establish trade agreements between governments to provide exceptional support beyond normal international financing practice. We have seen this in the bilateral deals with the oil companies over the last few months.

About 3 months ago we increased our direct loan interest rate from 6 percent to 7 percent to bring it more in line with the cost of our borrowing and in the anticipation that other export credit agencies would follow. The reaction has been mixed; some of our competitors have also raised their rates somewhat, but others have not yet done so. The rate differential between Eximbank and our major competitors now ranges generally from one-half to 1 percent. We are one-half to 1 percent higher and we think this gap should be narrowed or limited. It must be borne in mind that our Bank typically lends no more than 45 percent of the amount of exports covered at the 7-percent rate, with the balance representing a 10-percent cash payment by the buyer and 45-percent commercial bank financing at market rates of interest. Other countries, on the other hand, apply their low interest rates to the larger slice of the transaction, although they have other charges which raise the cost of export credit; bank charges; management fees; insurance premiums, which may raise the effective cost of their financing. The net result of all these differences, at the present time, is that the effective cost of our export credit generally runs higher than that of our major competitors with the exception of Germany.

We are in a position where if we set our rate a little lower, we are charged with "subsidizing." If we set it a little higher, we can be criticized for not carrying out our mandate to offer competitive terms. Fortunately, I believe we can walk this thin line because the interest rate is not the only element in measuring the relative value of credit terms. Other important elements in the support which Eximbank extends to

the American exporter include the marshaling of private credit, financial expertise, the assurance that financing will be available, and the flexibility to develop a financing package adopted to the requirements of the project and the cash flow which it will produce. So I think all of these elements taken together, we are offering reasonably competitive financing.

The value of exports supported by the Bank has increased dramatically from $2.9 billion in 1969 to $10.5 billion in 1973. This year we estimate that the Bank will be able to support close to $12 billion of export sales. This increase in activity is needed to eliminate the deficits in trade and payments which have been so costly to our people in the prices they pay and in the value of their currency.

Let me now turn to some special problems we have. The problem of shortages of particular products in the United States has raised serious problems and questions for the Bank. There is no simple answer to the shortage question. The right answer will vary for different situations and at different times. On metals and fertilizer and food, Eximbank loans can create new supplies and thus make an important contribution to overcoming shortages.

On energy due to possible domestic shortages of equipment, some concern has been expressed about our financing of oil drilling rigs and tubular steel used in oil exploration. Although obviously we do not want to in any way weaken our domestic energy program, I believe that denying credit on export sales of this equipment accomplishes very little, if anything. It is more likely to injure not only the dominant position we now hold in markets for this equipment, but also our interest in expanding the world energy supply and having enough equipment capacity to expand sharply exploration at home.

There is already evidence, for example, that Japanese oil rig firms are expanding. Recent listing of contracts for North Sea rigs shows Germany abreast of the United States and Norway 40 percent ahead in contracts to build offshore platforms, and this is a market in which only a short time ago we were completely dominant.

If the word gets around that Eximbank financing is not available for this kind of equipment, American manufacturers may slow down in seeking foreign orders, shift their source of supply to overseas subsidiaries, or even turn to foreign suppliers who can get financing to sell rigs to American firms building offshore platforms.

Another concern of ours, also discussed at these hearings, is the degree to which Eximbank loans finance the export of productive equipment which can transfer jobs abroad. We have found that over the last 3½ years about $3 billion or 12 percent of the Bank's authorizations supported exports of productive equipment used to increase productive capacity in foreign countries. The great bulk of our financing supports the export of powerplants, earth moving equipment, locomotives, trucks, airplanes, and other products which clearly provide jobs in the United States and produced power and roads and transportation which is not exported from foreign countries. Another large slice of our financing supported exports which might affect jobs in the United States, but only marginally if at all, and which clearly provide a great many more jobs in manufacturing here. The relation-

ship between airplane manufacturing and international air transport is an illustration of this kind of relationship.

We analyzed 57 direct loans authorized in 1973 to finance the export of productive equipment. We found that a great many of these transactions involved such items as cement plants and fertilizer plants where it is apparent that the resulting foreign production would not displace any existing U.S. exports to the market of the country concerned. Nor would it compete in any third market for U.S. exports. Thus, there was no loss of employment in the United States. In most cases, equally sophisticated technology was available from competitors in other countries.

Now these 57 direct loans involved Eximbank financial assistance of a quarter of a million dollars, supporting more than a half million dollars in sales of U.S. equipment abroad. So these exports directly created 35,000 U.S. jobs based on the Bureau of Labor Statistics data. So, in this sense, these exports succeeded in protecting a great many American jobs, as all our exports do.

Now there were some loans, of course, where it would be difficult to prove that none of the production could come back to the United States or displace subsequent exports of U.S. production in third markets. But, in such cases, we have found that European and Japanese manufacturers were ready and able to provide equipment capable of implementing the importers' plans to utilize their local labor and materials. These decisions were made on the basis of the internal economic and political needs of other countries, and they are influenced only marginally by our willingness to finance their exports because they can get the same kind of equipment and the same kind of financing from other countries. The projects would proceed, in any event, and we were simply able to help our own machinery exporters to be competitive and maintain those jobs in the American economy.

Today's world is interdependent, and production techniques and methodology are too widely dispersed to permit us to build a wall around the U.S. economy which can halt the shift of production to those most capable of doing the task at the lowest cost.

To maintain jobs and living standards in the United States we have to work to develop more advanced competitive products and to create new jobs at higher pay for every job lost as workers abroad become capable of producing some products at lower costs. We have done fairly well so far, but in order to keep the pace we must steadily increase the $28 billion worth of machinery and equipment and the $23 billion worth of other manufactured goods the United States exported in 1973. This is where the Export-Import Bank can make a contribution which overwhelmingly exceeds any marginal role it may play in the export of production equipment, virtually all of which the importers can also acquire from sources outside the United States.

Now let me turn briefly to the matter of East-West trade. President Nixon and Secretary Kissinger have spoken eloquently on the importance of working toward a relationship with the Soviet Union which can reduce both the cost of armaments and the danger of a nuclear holocaust. They believe, together with many in the Congress and among the American public, that the development of mutual stakes in economic cooperation for the United States and the Soviet Union can contribute substantially to that objective.

Our Bank does not make foreign policy. As long as the President and the Congress find it in the national interest to continue commercial relationships with the Soviet Union, Eximbank is an instrument to be used.

In some quarters, the notion exists that Eximbank is giving, or is prepared to give, the Soviet Union large sums of money. That of course is not true. We can only disburse funds to American companies in payment for American products to be used in the Soviet Union in return for the obligation of the Soviet Union to repay with interest at a rate which is currently 7 percent. Eximbank will only enter into the same kinds of transactions in the Soviet Union as it has entered into for 40 years in other countries around the world.

You hear that Eximbank is making loans to the Soviet Union without adequate financial information. That is not true. The law requires the Bank's directors to determine whether transactions in which it participates are sound and offer reasonable assurance of repayment. In making this judgment, the directors look at many factors and these factors are not always the same in every transaction. We have enough information about the Soviet Union's creditworthiness to justify the loans we have made and, when we feel that we require additional information, we will make that a condition to making additional loans. The Soviet Union has a prime credit rating based on its large gold reserves, over $10 billion at the current market price of gold; its status has the second largest economy in the world; its unblemished record or prompt repayment of its commercial debt established over the years; and the importance to the Soviet economic foreign policy of maintaining that record. It also has a top credit rating with the leading commercial banks of the world and the Government export credit agencies of other countries. I can assure you that Eximbank will lend to the Soviet Union only when it believes that there is reasonable assurance of repayment.

Now one myth I would like to shatter is that Eximbank is providing the Soviet Union with vast quantities of capital, equipment, machinery, and technology which it cannot get elsewhere. The fact is that Europe and Japan are ready to provide the Soviet Union with both the credit and the products the Soviet Union, in some cases, would prefer to get from the United States. As of October 31, 1973, the Bank had commitments of some $600 million in the Soviet Union, Yugoslavia, Poland, and Romania, while our five principal competitors—the official export credit agencies of England, France, Germany, Italy, and Japan—had committed about $9 billion in these countries. Our commitments as a percentage of the commitments of our five competitors amount to 2.36 percent in the Soviet Union, 22.7 percent in Yugoslavia, about 4 percent in Poland, and about 5 percent in Romania. Now since October 31, 1973, our commitments to the Soviet Union increased from $104 million to $289 million. On the unlikely assumption that our five principal competitors did not also increase their loans since last October, their commitment to the Soviet Union would still be 16 times as great as ours.

So at the present time our lending activity in the Soviet Union is really peanuts compared to Europe and Japan. Japan and Europe are selling to the East the same type of industrial products which

U.S. exporters are selling. Eximbank's loans to the Soviet Union are supporting the sale of nonmilitary items which are readily available from the other countries as well as the United States, and the Soviets want us to know that they are not without alternatives, that they are not dependent on us.

For example, on the Kursk steel complex, they seem to have decided that sufficient financing will not be available from U.S. sources, so U.S. companies never got a crack at that deal although they were seeking a crack at it. A West German consortium got the project. We lost very large exports plus the opportunity of getting long-term contracts for the supply of 2 million tons per year of material roughly equivalent to pig iron and scrap which we are finding increasingly difficult to obtain here.

Let me assure you that we at Eximbank examine each transaction for possible adverse effects upon the U.S. economy, as we are required to do by statute. Beyond that, the United States has an export licensing system administered by the Department of Commerce to control the shipment of items which could make a contribution to the military strength of the Eastern bloc and which are not otherwise available.

By virtue of this system, nothing is exported with the help of Eximbank financing or otherwise without a determination that the item to be exported does not contain advanced or unique technology or otherwise have potential military value which could impair the security of the United States. The Departments of State and Defense, with input from our intelligence agencies and specialized technically qualified agencies such as AEC and NASA participate in that determination.

So I want to emphasize that Eximbank directors are as concerned as anyone with maintaining and protecting our national security and we recognize that, quite apart from the strategic potential of a specific export, trade can build the economic strength of another power and that economic strength can contribute toward military potential.

But this, to a large extent, is a matter of magnitude and proportion. Soviet imports of investment goods from Western countries ran about \$2 billion to \$2½ billion in 1973. That amounted to about 1 percent of what the Soviets themselves are able to invest each year in building their economy. They have got a \$600 billion economy and they put about a third of it back into investment, \$200 billion a year to build up the economy. The United States accounted for about 10 percent of the equipment that the Soviets received from Western countries, so we can be said to have added one-tenth of 1 percent in quantity to what the Soviets were able to do for themselves.

Now we recognize that contributions of trade could increase the strength of the Soviet economy to a degree with, to some extent, would exceed that indicated by the magnitude and the proportion of that trade in the relation to the \$600 billion Soviet economy, about half the size of ours. But without this trade, the Soviet Union has achieved a military capability so great that any increments from this trade would not appreciably increase the damage that could be inflicted if we should fail to maintain the peace.

The present rate of Eximbank lending to the Soviet Union is less than one-quarter of 1 percent of the amount which the United States

and the Soviet Union spend each year in the military competition between them. It certainly seems reasonable and prudent to proceed at this pace, or even a little faster, to see whether these economic relationships with the Soviet Union are likely to lead each of us to find greater self-interest in economic cooperation than in military competitions. Certainly, we have a great deal more to gain in reducing the costs and the dangers of military competition than we have to lose if the experiment of economic cooperation should fail. Certainly, we should pace and measure our economic cooperation in relation to its impact on our security and progress in limiting the cost and the risk of the military competition which presently prevails. Certainly, it is reasonable to proceed prudently with economic cooperation to see if we can develop a reasonable prospect that it will result in the shift of resources from armaments to better living standards.

As I see it, that is the nature of the careful and prudent strategy we should pursue in developing trade with the Soviet Union and measuring its relationship to our own security in the military equation between the two countries.

Now I would like to turn to the hard economic benefits that can come from Soviet trade. One example is the fertilizer deal where an Eximbank loan of $180 million would produce a sale of $400 million of pipeline, storage tanks, and ammonia plants manufactured in the United States. It would also generate the investment of an additional $600 million in ships and phosphate rock development, and phosphoric acid plants. In exchange for superphosphoric acid, which we have in relative abundance, we would receive two nitrogen fertilizers, ammonia and urea, which are scarce, and this fertilizer would be made with Soviet natural gas. To manufacture that needed fertilizer here would require a drain on our own natural gas reserves in an amount large enough to heat over a million U.S. homes. The imported fertilizer would have an energy content equivalent to 25 million barrels of crude oil a year.

So we save energy, we get exports, jobs will be created in the United States, and our balance of trade will be benefited as we get the needed fertilizer for goods and not for dollars, which would have an adverse impact on our trade balance.

In short, we have a project which promises concrete benefits to us, contributes to world food needs, and will happen in any event. If Eximbank fails to provide the financing, the United States will lose the benefits I have outlined. This project is in the Soviet 5-year plan and will go forward. The only difference is that if Eximbank financing is not available, the contracts and benefits are likely to go to French, Italian, British, and Japanese suppliers.

So that is one illustration of the kinds of benefits, the kind of leverage, that we may be able to generate from trade transactions with East Europe and Russia.

There are other large projects, proposed deals, in which the sponsors believe there can be substantial benefits to the United States. You hear about the large projects to bring natural gas by pipeline from Siberia to the Arctic and to the Pacific, then by LNG ships to the Eastern United States and to the Pacific States.

The projects have not yet taken concrete form. There is no application to Eximbank to finance them. If application were made to the Bank on these projects, we would not be able to handle them, or any major part of them, under our proposed loan limitation for fiscal year 1975 without impairing our ability to finance exports in established markets all around the world to a degree to which we would not be willing to do. We have established these markets; we must maintain them. We must continue to support exporters who work in those markets on a worldwide plan.

We could not afford to tilt that heavily in the direction of a single country. So, if it were considered desirable to finance the projects of this type, Congress would have to increase our loan limit and Eximbank's directors would have to satisfy themselves that there would be no adverse consequences to our domestic economy.

The NAC, the National Advisory Council on International Monetary and Financial Policies, which is made up of the Secretary of State, the Secretary of the Treasury, the Secretary of Commerce, the Chairman of the Federal Reserve Bank, and the President of the Export-Import Bank, would have to concur in the finding that such a transaction was in the national interest and had no adverse effect on our own interest and the domestic economy.

Now I would be as deeply concerned as anyone if we permitted ourselves to be dependent on Soviet energy sources to such a degree that we would not be able to adjust satisfactorily if they were cut off. But it seems to me that we could actually improve our energy source position as we diversify them. Soviet energy continued to flow to Europe during the Arab embargo. Of course we want to develop as much of our needed gas supply as we can here at home, through exploration and through the manufacture of synthetic gas, but we are by no means sure that these efforts alone will meet our needs and that additional and more diversified imports will not be necessary. If Siberian sources turn out to be economic, we could decide that it would not be imprudent to rely on them to the extent of between 1 and 2 percent of our national energy requirements and possibly 10 percent of local gas requirements, which, as we understand it, is the rough magnitude of the two gas projects under study in Siberia.

As to capital requirements, gas from these sources would be financed very substantially by labor and capital contributed by the Soviet Union. They would not necessarily compete for the drilling rigs, the coal mining equipment, the facilities for manufacturing synthetic gas and oil, the nuclear reactors and such things necessary to achieve independence. They could ease the adverse balance of payments and price consequences of our overdependence on Middle East fuel. It will take a good deal of time to study and evaluate projects such as these, and all I am saying today—all I want to say to you today—is that we should not rule them out before they have been fully formulated and evaluated.

Now I would like to comment on proposals that loans to Communist countries should require a Presidential finding that the transaction is in the national interest or that they should be subject to congressional review and veto. It seems to me that requirements of this kind would

not be good for the Congress, for the President, or for Eximbank and its purposes. Neither Congress nor the President can or should perform the function of Eximbank or its board of directors.

Congress does and should limit the authority it gives the directors, and restricts the extent to which they can exercise that authority. But, this should be done on a general plane, rather than in a way which requires Congress to make a judgment on specific loans. I believe that the present arrangement does restrict that authority quite effectively. Each year, Congress sets a limit on the amount of loans the Bank can make. The limit for this fiscal year is $3.8 billion. The Eximbank's directors have a responsibility to operate within that limitation to provide financing for American exporters operating in markets throughout the world. In practice, this places—as I indicated a moment ago—an effective limitation on the amount to be committed in any one country.

We are required to compete with export credit agencies maintained by the governments of 15 other industrialized countries. I believe a good many borrowers would prefer not to do business with a bank which would have to put them in a position where they could be publicly jilted at the altar and would have to provide their competitors with the opportunity to zero in on a prospective deal in which they have invested a great deal of time and money. Certainly, no bank in the history of the world, has had to operate that way. I am afraid that we would look foolish and impair our competitiveness if we tried.

We feel much the same way about requiring the President to make specific findings about a specific business transaction. Certainly his responsibility is that of a policymaker and administrator and he should be able to delegate the execution of policies and administrative directives.

Between the President and the Congress, a determination should be made as to the countries in which Eximbank credits should be made available. Once that decision has been made by the President and the Congress, its execution should be delegated to the Eximbank and its directors. That is the way it is now. That is the way it has been operating for 5 or 6 years, and longer than that in the case of some Communist countries. It has operated that way for 40 years with respect to the generality of the world trading system.

Now, let me conclude by some general comments on the proposed legislation. I will pass over the specific details of the legislation for the time being. I would like our Treasurer-Controller to deal with some of the more technical provisions.

The changing world trade situation, the inflation in the price of exports, the prospective new business we see ahead, the rate of increase in normal transactions experienced over the past few years would all seem to justify the increase in the Bank's commitment authority which H.R. 13838 would authorize.

We are now estimating that as of June 30, 1974, the charge against the Eximbank's $20 billion commitment authority will be $17.6 billion. It may run a little higher. We project that the $5.6 billion loan authorization requested for fiscal year 1975 would bring us $800 million over our present $20 billion authority. Charges against the $10 billion frac-

tional reserve insurance and guarantee limitation, as of June 30, 1974, are estimated at about $9 billion.

In projecting increases in credit requirements at a 17- to 20-percent rate, which seems reasonable in the light of the 20-percent increases of the past 2 years, an additional $10 billion in overall commitment authority and in our guarantee and insurance fractional charge authority will carry us into fiscal year 1978.

So, in short, we would expect that the present authorization would run out somewhere in the second half of the next fiscal year, and we would expect that the $10 billion increase, which is being requested, would carry us into fiscal year 1978, under the normal 3- or 4-year pattern of reauthorization.

Now I would like to emphasize again what I said earlier. In its request for the $10 billion increase in its commitment authority, Eximbank has not taken into account financing in the magnitudes which would be required for the development of the huge Soviet gas and oil projects. They would require supplemental authorization, if they were to be considered at all.

Second, if these projects do mature, and appear to be in our interest, Eximbank would have to request the amount needed to finance them in its annual buget presentation or a supplemental request to Congress.

As the subcommittee is aware, in addition to setting a total commitment authority during the Bank's statutory life, Congress also maintains annual review of the Bank's operations and year-to-year approval is required for its commitments. Eximbank's annual business plan, including limitations on new program activity, authorizations for equipment and service loans, administrative expenses and entertainment expenses, will continue to be submitted to the Congress each year by the President for review by the Appropriations Committees and approval by the Congress.

Therefore, Congress, through its annual budget authorizations for Eximbank, will control the rate at which the Bank can utilize the increases in authority requested in this bill.

In addition to H.R. 13838, there are several other legislative proposals related to the Bank which are pending before the subcommittee. I believe I have already commented on the principles that these bills embody.

On House Resolution 774, the Bank's directors feel that they could not change the policies and operation of the Bank in response to legislation which has not been approved by the full Congress and become law, but which is still in the process of review under the regular legislative procedures of the Congress. Our board believes that until Congress works its will to change the law, the Bank must continue to meet the statutory requirements which the existing law imposes upon it.

We believe that to do otherwise, would be unfair to the many U.S. companies which have gone into foreign markets and spent a great deal of time, effort, and money to put together American sales counting on the financing which Congress has directed the Bank to make available.

As the Bank's board sees it, until the law is changed, it must meet its statutory responsibility, reemphasized by the Congress only 3 years ago, in providing financing for U.S. exporters which is competitive with the financing being offered by our principal competitors with the support of their governments.

With respect to H.R. 14257 and similar bills, we believe that Congress has already set adequate policy guidelines in sections 2(b)2 and 2(b)3 of the Eximbank Act for Eximbank operation in the various countries affected.

We think we have kept the Congress fully apprised of our activities in the Communist countries ever since congressional concern was first expressed in 1963. In addition to the President reporting his determinations with respect to making Eximbank financing available in the Communist countries, as required by law, Eximbank has reported regularly its activities in these countries and, in addition, has testified each year in both Houses of Congress on this matter during its annual budget hearings. Its activities in these countries have been fully discussed with this subcommittee and its Senate counterpart each time the Bank's enabling legislation is under review—which, in the last few years was in 1967, 1968, and again in 1971. We have also reported all of these transactions in our annual report to the Congress.

We believe, Mr. Chairman, that Eximbank has operated satisfactorily, faithfully, and diligently under the policy guidelines laid down by the Congress and has worked diligently with the Congress to assure that its activities have conformed to those guidelines.

We, of course, will continue to keep the Congress fully advised of all Eximbank activity under whatever mandate and guidelines the Congress sets for the Bank and will be ready at any time to discuss with this subcommittee any matter of concern relating to the Bank and its operations.

Mr. Chairman, my colleagues and I will now be pleased to answer any questions which your subcommittee may have.

[Mr. Casey's prepared statement follows:]

Statement of
William J. Casey, President and Chairman
Export-Import Bank of the United States
Before the
Subcommittee on International Trade
Committee on Banking and Currency
U. S. House of Representatives
93rd Congress - 2nd Session

Tuesday, April 30, 1974

Mr. Chairman:

It is a privilege to appear before your Committee in behalf of H. R. 13838, to extend the charter of the Export-Import Bank and to increase the Bank's authorization so that it can support the rising level of exports we need to pay for the things we need from abroad, to protect jobs at home and to maintain the value of our money.

As you know, Mr. Chairman, I am new to Eximbank and I have been diligently seeking to assess Eximbank's operations and its role in a changing world economic order. I have the benefit of testifying today after a good many knowledgeable and experienced witnesses have appeared before your Committee and Senator Stevenson's Committee on the other side of the Capitol. I will try to take advantage of this by addressing myself to the broad spectrum of concerns which have been expressed before these Committees.

The United States in the World Economy

Any evaluation of Eximbank should be made against the background of the state of the world economy and the U. S. position in it. We all remember the acute concern we had only a year ago when the United States was experiencing a financial hemorrhage arising primarily from the fact that

we were exporting $6 billion less than we were importing. We saw the dollar lose over 20% of its value in relationship to the currencies of some of our major partners. This costs the American consumer billions of dollars in higher costs for imported goods. It costs additional billions in higher prices for American-produced goods as buyers all over the world found themselves able to get more for their own money by competing with the American consumers for American goods on world markets. That situation was dramatically reversed within a year. Today we look back at a favorable trade balance for the previous year. Eximbank, in dramatically increasing the volume of exports it was able to support by over $7 billion--over 300%--from FY 1969 to FY 1973, made a contribution to the value of our currency and to our trade balance which was worth billions of dollars to American consumers.

In March we slipped back into a trade deficit and we must deal with several new developments which are now dominant in the international economic order. Let me cite these:

(1) the sharp increase in world prices of oil and other vital materials, which has suddenly disrupted the established trade patterns everywhere;

(2) rising world-wide inflation, which the oil price crunch will intensify and which now seriously distorts all trade projections based on past dollar values;

(3) actual or impending shortages of metals and other raw materials, and of fuel, fertilizer and food;

(4) a rising use and need for credit in world trade accentuated by the financial squeeze in which sharply increased oil prices and general inflation have placed many countries;

(5) the increased importance of high technology products and large project engineering which have a special need for financing, which the world needs to meet shortages and which the U. S. can provide and must sell in order to pay higher prices for the oil and raw material required to keep our economy prosperous; and

(6) other nations see their reserves falling and will be pushing their exports harder to offset their higher oil import costs. This means tighter markets and sharper competition for American exporters.

In short, a $15 billion jump in our oil costs plus other price rises have increased our export needs heavily at the very time our exporters must look harder for overseas customers and then compete harder for their business.

All this increases the reliance of the American trader on the services of Eximbank. With money flowing in enormous volume to the oil producing countries, the rest of the world must depend more on credit financing, and the attractiveness of the credit offered in various countries will be a much larger factor in sales competition.

The other major new trade influence--inflation--also means heavier strains on Eximbank's resources which we hope this Committee will take into account. Obviously, more dollar credits will be needed to achieve the same level of exports, to say nothing of the need for more exporting.

The over-riding national interest of the United States in its security and its prosperity calls for policies which reflect the reality of our position in a world which is both increasingly competitive and increasingly interdependent. We have an economy in which two out of three jobs are in a service activity. Only one out of three Americans produces goods which are the traditional stuff of international trade. We must increasingly pay our way in the world with high technology and engineering, with financial and managerial skills. Our prosperity and standard of living will depend on how well we succeed. To facilitate this, the Congress created an enormously flexible and valuable instrument in the Eximbank. Currently, without the financing it provides, our commercial airplanes and our nuclear reactors could not be purchased all over the world. Our ability to develop mining, agricultural, transportation and other projects to increase and make available resources all over the world depends heavily on Eximbank.

Another reality is that we are not alone in the ability to apply advanced technologies and to develop the world's resources. If we falter, other advanced nations have the skill and the financing to step in. That is why Congress gave Eximbank its mandate to provide competitive financing. That is why Congress in Section 3(1) of the Export Administration Act of 1969, declared that it was the policy of the United States to encourage trade with all countries with which it has diplomatic or trading relations, including Communist nations. It would be futile for us to try to build a wall around technologies which are already available for others to apply. It would be self-defeating to deny ourselves opportunities for mutually advantageous trade which other countries are ready and anxious to develop

and finance. It is essential that these opportunities be pursued in a manner which safeguards our economic and our security interest, and, as I will develop later, Eximbank operates only within procedures and mechanisms established for that purpose.

Eximbank--Its Performance, Its Costs, Its Benefits

Let me spell out what Eximbank is, what it costs and the capability it provides to relate our American economy and its interests to the world.

Eximbank is an unusual thing. It is a Government agency which, year after year, does not ask the taxpayers for any additional money. Indeed, it distributes $50 million in cash to reduce the taxpayers' burdens each year. It is able to do this because the taxpayers invested a billion dollars about 30 years ago. Since that time, Eximbank has distributed $835 million in dividends to the taxpayers. On top of that, it has earned another billion and a half dollars which belong to the taxpayers but remain in Eximbank to support a constantly rising level of American exports. It has been able to support a level of American exports increasing from an annual average of about $2 billion throughout the 1960's to today's level of over $10.5 billion a year by borrowing from the public and the Treasury at market interest rates and by cooperating with private banks throughout the world.

The $10.5 billion of export sales supported in the last fiscal year translates into 738,000 full-time American jobs. Over the life of Eximbank, the $71 billion of export sales it has supported have produced about $16 billion of tax and other revenues to the Federal Government as well as

additional revenues to state and local governments. American business has derived over $5 billion profit from these export sales.

Looked at purely in these terms of immediate return on investment and export sales financed, it seems clear that Eximbank is a good buy for the American taxpayer. But that is far from the whole story. That investment that Congress made 30 years ago pays for a worldwide network which assures American business that buyers all over the world can finance the purchase of American products. This network, certainly one of the most important forces supporting our economic interests in the world, is made up of 400 men and women who think exports all the time as they work for the Export-Import Bank, over 200 men and women working in New York and in eight regional offices for the Foreign Credit Insurance Association, our partner in insuring export credit, 249 banks all over the United States and 282 banks with their many branches in other countries around the world. Any American business selling abroad or any of its customers can walk into one of thousands of offices which can be found in all the major business centers of the world and get credit backed by Eximbank to finance the purchase of a product made in the United States.

Eximbank's record on write-offs has been better than the largest and most successful private commercial banks in the United States. In the past 15 years, only eight loans, all to private buyers, totaling $718,000 have been written off as uncollectible. Moreover, since Eximbank began operations it has written off only $3.7 million of loans, against $23 billion in loan disbursements--only 2 cents on every $100 of loans disbursed.

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Like other banks, we must reschedule loans from time to time in order to maximize repayments when borrowers, private or public, are in temporary financial difficulties. This includes a recent rescheduling of several Chilean loans.

In addition, we have been carrying loans on our books relating to sales in Cuba and in the People's Republic of China which took place before Communist governments controlled those countries. These loans have not been written off because we expect that these debts can be settled in the event that diplomatic and trade relations are re-established with these countries. However, even if these loans were charged off, our total write-off would still be less than 5 cents on every $100 of loans disbursed. This compares favorably with the average write-off of 50 cents per $100 on international loans of the largest private commercial banks in the United States.

Our record on claims under our insurance and guarantee programs has been almost as good. Over the years, Eximbank has paid guarantee and insurance claims, net of subsequent recoveries, of only $23.5 million, or 20 cents on every $100 of cumulative shipments covered under these programs.

Even though Eximbank, year after year asks for no additional funds from the taxpayers, we hear the complaint that its subsidizes exporters. To the extent that there is a subsidy in Eximbank's operations, it is minimal in relation to what Eximbank does to generate the benefits which American workers and American consumers derive from the

better than $10 billion of export sales that Eximbank facilitates each year. Any subsidy element is the least important part of the support Eximbank extends to the American exporter. The sheer availability of financing and the flexibility to adapt it to the requirements of a project and the cash flow it will produce are more important than any small subsidy in the interest rate we charge pursuant to the Congressional mandate to back our exporters with financing comparable with that available to their competitors abroad.

As long as American exporters have to compete in world markets with other exporters backed by their governments with low interest financing, our rates cannot be kept in line with market rates all the time. Because we aim both to compete and operate at a profit, our overall cost of money is a prime factor in setting our interest rate. Presently, our Treasury borrowings cost overall 7.5%; our debentures, 6.5%; and our participation certificates, 5.1%. The weighted average cost of all of the money we use is 6.8% which is less than our current lending rate of 7%.

In earlier years we often borrowed at a substantially lower rate than the rate we charged. The overall costs of our borrowed money never went above 6% prior to this fiscal year. In earlier years we have borrowed money at as low as 4.8% while we were lending at 6%. As a result we built up retained earnings on which we are getting 6 or 7% interest at no current cost to Eximbank.

Eximbank's Mandate, Its Competition, and Its Programs

Congress has very clearly set forth the policy guidelines under which Eximbank shall operate, including its purposes and limitations, in Section 2 of the Export-Import Bank Act of 1945, as amended. The objectives and purposes of Eximbank are to aid in financing and to facilitate exports between the United States and foreign countries or agencies or nationals thereof. Congress has further declared that it is the policy of the United States to foster expansion of exports of goods and services, thereby contributing to the promotion and maintenance of high levels of employment and real income and to the increased development of the productive resources of the United States.

In meeting these very broad guidelines Congress has mandated that Eximbank shall provide loans, guarantees and insurance on rates, terms and conditions which are competitive with those offered by the government-supported export agencies of our principal competitors. And, it has instructed Eximbank to accord equal opportunity to small exporters as well as large ones.

To assure that the government does not displace available private financing the Congress has instructed the Bank to supplement and not to compete with private capital, and in keeping with the principles of being a bank and not an AID-type agency, Congress requires that the Board of Directors of the Bank must find reasonable assurance of repayment before any transaction can be approved. As a further precaution this Charter requires that the Bank take into account possible adverse effects upon the U.S. economy which may ensue from any action of Eximbank.

In complying with these instructions Eximbank makes thorough continuing studies of world credit terms and conditions and submits semiannual reports to the Congress on its findings. Its record clearly shows that it has carried out the policies set forth by the Congress in expanding exports for the benefit of the United States, in encouraging and not competing with private capital, in providing competitive financing, and in according equal treatment to the small as well as the large exporters. The loss record demonstrates that the Board of Directors has been able to find reasonable assurance of repayment on the transactions which have been supported.

Congress requires Eximbank to keep a close and continuing watch on the kinds of export financing support provided by the governments of other trading nations and to make a semiannual report to Congress on the adequacy of Eximbank's facilities versus those of our foreign competition. We do this exhaustively, for it is clear that competitive export credit is a vital necessity if U. S. exporters are to be able to meet the overall competition provided by suppliers from other countries who are backed by an impressive array of government guarantee, insurance, lending, discounting and rediscounting facilities.

The official export credit agencies of other major industrial countries provide a lot more financial support than we do. Our most recent figures indicate that Western Europe and Japan covered about $65 billion of export shipments through official export support agencies versus about $7 billion of export shipments covered by Eximbank in 1973. The export credit agencies of England, France, Japan and Germany alone provided cover for seven times

as much in shipments as did Eximbank. Outstanding commitments for these export credit agencies are more than three times as high as Eximbank's. Part of the reason for this dramatic discrepancy is that our foreign competitors have tended to concentrate on supporting short and medium-term shipments, which turn over more rapidly and leave much less outstanding at the end of each report year than does the long term support which continues to constitute the bulk of Eximbank's activity. Furthermore, because of our requirement to supplement and complement, rather than compete with, private sources of capital, which incidentaly have been willing to finance substantial amounts of short and medium-term export credit without our participation, our own activity has centered much more heavily on the long term financing area where Eximbank's facilities are necessary to provide appropriate repayment terms and interest rates for large multimillion dollar projects. This predominance of longer term loans and guarantees also reflects the nature of the American manufacturing system which is so large and diversified that we can put together large turnkey projects overseas without having to look to other manufacturing countries as a source of supply for key components.

Eximbank operates a very small shop to do the job Congress has assigned it. The countries of Western Europe and Japan have over 4,400 people working in their official export credit agencies, at least 3,200 of whom are in France, Germany, England and Japan alone. This compares with the minimal level of 400 people at Eximbank and 240 at FCIA.

This is a changing and highly competitive world, and the techniques for putting together an attractive export finance package vary a good deal

from country to country. We think that overall we have a competitive range of programs but other countries can use techniques and facilities, supplementary to their export credit agencies, to create competition that we must work hard to match. They can offer line of credit facilities, a mix of aid and trade credits, bilateral arrangements for large credits on special terms and trade agreements between governments to provide exceptional support beyond normal international financing practice.

As previously mentioned, about three months ago Eximbank increased its direct loan interest rate from 6 to 7% to bring it more in line with our cost of borrowing and in anticipation that other export credit agencies would do likewise. The reaction has been mixed--some of our competitors have also raised their rates somewhat, but others have not yet done so. The rate differential between Eximbank and our major competitors now ranges generally from 1/2 to 1%, and we think this gap should be narrowed or eliminated. It must be borne in mind that Eximbank typically lends no more than 45% of the amount of exports covered at the 7% rate, with the balance representing a 10% buyer cash payment and 45% commercial bank financing at market rates of interest. Other countries typically apply their low interest rates to a larger slice of the transaction, although they have other charges which raise the cost of export credit including bank charges, management fees, insurance premiums, etc., which raise the effective cost of their financing. The net result of all these differences, however, is that at present the effective cost of our export credit generally runs higher than that of our major competitors with the exception of Germany.

We are going to keep a close watch on the moves made by our official competition overseas in this and other areas in coming weeks and months, and will change our programs if we find that we are not continuing to keep U. S. exporters competitive with their foreign counterparts as mandated by Congress.

We are in a position where if we set our rate a little lower we are charged with "subsidizing" and if we set it a little higher we can be criticized for not carrying out our mandate to offer competitive terms. Fortunately, I believe we can walk this thin line because the interest rate is not the only element in measuring the relative value of credit terms. Other important elements in the support which Eximbank extends to the American exporter include the marshaling of private credit, financial expertise, assurance of availability of financing, and flexibility to develop a financing package adapted to the requirements of a project and the cash flow it will produce.

Perhaps I can summarize these brief remarks on our competitiveness by saying that we face determined, strong export credit support from the official agencies of every other developed country, many of them with organizations considerably larger than ours and with several different entities working at providing large amounts of loans, guarantees, insurance, discounts and rediscounts to their exporters on very favorable terms. Our job is to keep close tabs on this competition and match it whenever possible by the array of programs we have developed to make maximum effective use of our own resources and those of the private banking community.

As you are aware, the value of exports supported by Eximbank has increased dramatically since 1969. This increase has been from $2.9 billion in FY 1969 to $10.5 billion in FY 1973, a $7.6 billion or 263% increase. This year we estimate that the Bank will be able to support approximately $12 billion of export sales. This increase in activity is needed to eliminate the deficits in trade and payments which have been so costly to our people in the prices they pay and the value of their currency.

Let's take a brief look at how the various components of our export support increased.

Direct loans rose from $1.11 billion in FY 1969 to $2.414 billion in FY 1973, an increase of 117%.

Financial guarantees (guarantees of private bank credit in partnership with Eximbank direct loans) rose from $112 million in 1969 to $1.530 billion in 1973, an increase of 1262%.

Commercial bank guarantees (for medium term credits issued directly by banks without Eximbank loan participation) rose from $278 million in 1969 to $411 million in 1973, an increase of 48%.

Exporter credit insurance through FCIA rose from $824 million in 1969 to $2.473 billion in 1973, an increase of 200%.

Discount program advance commitments (available to commercial banks which acquire export paper, enabling them, on an advance commitment basis, to raise cash on this paper at any time under any kind of liquidity conditions) rose from $185 million in 1969 to $1.64 billion in 1973, an increase of 786%, and the number of banks using this program increased from 27 to 169. Actual drawdowns under the discount program

in 1973 were $372 million, or 23% of commitments, which shows the program's usefulness in encouraging private bank activity in the export field without unnecessary drawings against Eximbank.

It is important to note that the $10.5 billion in export sales by Eximbank in FY 1973 required only $2.4 billion in direct Eximbank loans. That's because, in compliance with its mandate to supplement and not compete with private capital, Eximbank has implemented numerous programs emphasizing the use of its guarantee authority as opposed to its direct lending authority. Thus, during the 10 years preceding 1969 Eximbank placed approximately $900 million of export loans into the private market, whereas since 1969 it has placed approximately $11.8 billion in export loans to the private market, with or without its guarantee. We intend to continue this determined effort to minimize direct loans and maximize the use of guarantees and insurance wherever possible. The Bank has modified its basic programs of support to carry out this objective. The program which receives the most publicity because of the amounts involved in each transaction is the Direct Loan Program under which the Bank will lend to the overseas buyer an amount up to 45% of the cost of the U. S. goods and services. The borrower makes a cash payment of 10% and must arrange for the financing of the balance of the purchase price from private sources in the United States or abroad. If necessary, Eximbank will guarantee these private loans when the private banks are unwilling or unable to accept the commercial or political risks involved. Frequently, the borrower handles this 45% with cash or borrowing which does not require Eximbank's guarantee.

Eximbank's interest rate is currently 7% per year on its direct loans and this rate is uniform for all the countries in which it is presently doing business. We will also accept repayment from the last half of the repayment term when it is necessary to do so to attract private financing for the sale or to reduce effective cost of financing the transaction to meet foreign competition. In this way we are assured that private sources will participate in transactions even when the repayment term required is longer than banks could support by themselves.

Further, with today's extremely high private rates, the combination of private loans at market rates and Eximbank loans at 7% gives the buyer an effective interest cost of approximately 8.35%. Given rising market rates and our combining credits with private loans it is difficult to remain competitive with the interest rates offered by other industrial countries. Obviously, without Eximbank support, the U. S. seller cannot compete with foreign government-supported export sales in today's market.

All funds disbursed under this direct lending program remain completely within the United States; since they are disbursed directly to the U.S. seller to enable him to be paid in full at or near the time of shipment of his goods. However, Eximbank is repaid with interest by the foreign buyer in dollars in the United States.

The greater number of transactions approved by Eximbank are covered under its Cooperative Financing Facility and its short and medium-term guarantee and insurance programs. During FY 1973 Eximbank approved approximately 4900 individual transactions under these programs adding up to slightly over $3 billion in exports.

The CFF program combines Eximbank funds with those of foreign financing institutions in support of smaller purchases of U. S. exports around the world. At the present time Eximbank is cooperating with 282 banks under this program. These banks, with their thousands of branch offices, take Eximbank into the marketplace in every significant city in the free world, permitting U. S. sellers to conclude transactions on the spot and smaller buyers to purchase U. S. equipment without being experts in international finance. Throughout FY 1973 this program grew extremely rapidly and continues to grow even more rapidly as it becomes better known to the sellers and buyers of smaller items.

The largest program in terms of numbers of transaction handled during any fiscal year is the guarantee and insurance program under which Eximbank will guarantee repayment of export obligations acquired by U. S. banking institutions without recourse from U. S. exporters or in cooperation with the Foreign Credit Insurance Association, an association of some 50 stock and insurance companies, which will insure export receivables against loss from the failure of the buyer to pay for commercial or political reasons. Under these programs, all of the financing is accomplished through the commercial banks in the United States unless the exporter desires to hold receivables in his own portfolio for one reason or another. The guarantee and insurance program does, however, allow the exporter to sell the receivables to the commercial bank at a reasonable rate, thereby allowing the bank to be the financier and the exporter to be the manufacturer and seller.

During FY 1973, Eximbank approved more than 4,000 transactions in this area, representing about $4.0 billion in export sales. These are the transactions which account for the day-to-day trade and which primarily support the smaller exports. Of importance is that 76% of the number of export sales supported by Eximbank were under the CFF, guarantee and insurance programs. Of even greater significance is the fact that 79% of these transactions supported sales of less than $250,000--obviously quite small for an export sale.

Numerous other programs have been devised to complement these basic few. Each has been implemented after thorough consultation with NAC and the business community to assure that Eximbank support is only given when necessary.

Eximbank's Policy Criteria and Its Impact on the Domestic Economy

Let me describe the basic criteria applied in determining whether Eximbank support is warranted and how Eximbank coordinates its activity with other Government departments and agencies and the business community.

The basic criteria which Eximbank examines include: (1) Is a U. S. export involved? (2) Is the purchase of the product or the development of the project economically viable so that it can generate sufficient funds to repay the indebtedness incurred in this purchase? (3) Is there reasonable assurance that Eximbank will be repaid? (4) Will this export take place without Eximbank involvement either on a direct loan or guarantee basis? (5) Will the export of these products have an adverse effect upon the economy of the United States?

To assure that actions taken by Eximbank are in full accord with the foreign policy, the international economic policy and the monetary policy of the U. S. Government, the Bank constantly seeks the advice of the National Advisory Council on International Monetary and Financial Policies (NAC) on policy matters as well as on some individual transactions.

The NAC consists of the Secretary of the Treasury who acts as chairman, the Secretaries of State and Commerce, the Chairman of the Federal Reserve Board and the President and Chairman of Eximbank. The Federal Energy Office and the Department of Defense are in regular attendance to amure that all aspects of any individual transaction can be examined. Other agencies, with expertise on a particular matter, may be called upon for special advice.

Prior to approval of any final commitment by the Eximbank Board of Directors, the NAC reviews all individual transactions where Eximbank's exposure is in excess of $30 million. The NAC also post-audits all other transactions in excess of $500,000. In addition, there are informal procedures between Eximbank and the Department of State to assure that no transaction, regardless of size, will be contrary to foreign policy.

Further coordination continually takes place between Eximbank and the exporting community so that present programs can be constantly reviewed and new means of resolving specific problems can be devised.

The problem of shortages of particular products in the United States has raised serious questions for Eximbank. On one hand, we certainly do not want to aggravate any shortage in domestic supplies where, in fact, it does exist. On the other hand, the United States still faces a potentially critical balance of payments problem and must expand its sales in world markets. This issue is closely coordinated with other departments of the Government primarily through the review of our loans and policies by the National Advisory Council.

There is no simple answer to the shortage question. The right answer will vary for different situations and at different times. Due to possible domestic shortages of energy-related equipment, some concern has been expressed about Eximbank financing of oil drilling rigs and tubular steel used in oil exploration. Although obviously I do not want to in any way weaken our domestic energy program, I believe that denying credit on export sales of this equipment accomplishes very little, if anything. I think it is more likely to injure not only the dominant position we now hold in markets for such equipment but also our interest in expanding the world energy supply and in having enough equipment capacity to expand sharply exploration at home.

There is already evidence that the Japanese seabed oil rig firms are expanding and a recent listing of contracts for North Sea rigs shows Germany abreast of the United States and Norway 40% ahead of the United States in contracts to build off-shore platforms, a market which we owned not so long ago.

I seriously question the wisdom of creating a further opening for competitors who can take orders away from us right now in order to bring in some oil a few months earlier five or six years from now. Moreover, failure to hold out maximum incentives to our equipment manufacturers now can deter the expansion of capacity of which we are capable and which we will need to have a couple of years from now when necessary leases off the Atlantic Coast have been issued, and the preparatory work for North Atlantic exploration has been completed.

If the word gets around that Eximbank financing is not available for this equipment, American manufacturers may slow down in seeking foreign orders, shift their source of supply to overseas subsidiaries, or even turn to foreign suppliers who get financing to sell to American firms building offshore platforms.

There is substantial evidence that U. S. manufacturers either have or can achieve adequate production capacity to meet both domestic and foreign demand. Data obtained from the Department of Commerce indicate that capacity for tubular products was 50% greater in 1962 than it was in 1973. Total manufacturing capacity for 1974 will increase by about 10% over 1973. Capacity for these products can be increased or decreased readily depending on demand. Regarding large oil drilling rigs, major manufacturers have indicated they can increase plant capacity at least 30% by late 1975 or early 1976. One of the largest producers will complete a 50% expansion in plant capacity this fall.

Another concern of ours, also discussed at these hearings, is the degree to which Eximbank loans finance the export of productive equipment which can transfer jobs abroad. We have found that over the last 3-1/2 years

about 3 billion dollars or 12% of the Bank's authorizations supported exports of productive equipment used to increase productive capacity in foreign countries. The great bulk of our financing supports the export of power plants, earth moving equipment, locomotives, trucks, and other products which clearly provided jobs in the United States and produced power and roads and transportation which is not exported from foreign countries. Another large slice of our financing supported exports which might affect jobs in the United States, but only marginally if at all, and which clearly provide a great many more jobs in manufacturing here. The relationship between airplane manufacturing and international air transport is an illustration.

We also analyzed 57 direct loans authorized in 1973 which financed the export of productive equipment. We found that many of these transactions involved such plants as cement plants and fertilizer plants where it is apparent that:

1. The resulting foreign production would not be displacing any existing United States exports in the market of the country concerned--result: no loss of employment in the United States.

2. The resulting foreign production would not be competing in any third market with United States exports--result: no loss of employment in the United States.

3. Equally sophisticated technology was generally available from competitors in other countries.

4. The 57 direct loans involved Eximbank financial assistance of $259.2 million, supporting $576 million of U. S. equipment exports -- result: 35,000 U. S. jobs (based on Bureau of Labor Statistics data).

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There were some loans, of course, where it would be difficult to prove that none of the production could come back to the United States or possibly displace subsequent exports of U. S. production. But, in such cases, Eximbank has found that European and Japanese manufacturers were ready and able to provide equipment capable of implementing the importers' plans to utilize their local labor and materials. Thus, the projects were proceeding in any event and we were simply able to help our machinery exporters to be competitive.

Today's world is interdependent, and production techniques and methodology are too widely dispersed to permit us to build a wall around the U. S. economy which can halt the shift of production to those most capable of doing the task at the lowest cost.

To maintain jobs and living standards in the United States we have to work to develop more advanced, competitive products and to create new jobs at higher pay for every job lost as workers abroad become capable of producing some products at lower costs. We have done fairly well so far, but in order to keep pace we must steadily increase the 28 billion dollars worth of machinery and equipment and the 23 billion dollars worth of other manufactured goods the United States exported in 1973. This is where Eximbank can make a contribution which overwhelmingly exceeds any marginal role it may play in the export of production equipment, virtually all of which the importers can also acquire from sources outside the United States.

East West Trade

The United States is pursuing what we hope to be an historic and successful initiative in seeking to move our relationship with the Soviet Union away from

military competition and toward economic cooperation. This initiative is one in which we will not know the results for many years. The decision to make that effort, and the responsibility to gauge its prospects and results and to determine how far to pursue it belongs to the President and to the Congress. President Nixon and Secretary Kissinger have spoken eloquently on the importance of working towards a relationship with the Soviet Union which will reduce both the costs of armaments and the danger of a nuclear holocaust. They believe, together with many in the Congress and among the American public, that the development of mutual stakes in economic cooperation for the United States and the Soviet Union can contribute substantially to that objective. As long as the President and the Congress find it in the national interest to continue commercial relationships with the Soviet Union, Eximbank is an instrument to be used.

In some quarters, the notion exists that Eximbank is giving, or is prepared to give, the Soviet Union large sums of money. That, of course, is not true. Eximbank will only disburse funds to American companies in payment for American products to be used in the Soviet Union in return for the obligation of the Soviet Union to repay with interest at a rate which is currently 7%. Eximbank will only enter into the same kinds of transactions in the Soviet Union as it has entered into for 40 years in other countries around the world.

Some who oppose the Bank's activity in the Soviet Union contend that the Bank is making loans to the Soviet Union without adequate financial information. This is not true. The law requires the Bank's Directors to determine whether transactions in which it participates are sound and offer reasonable assurance of repayment. In making this judgement, the Directors look at many factors

and these factors are not always the same in every transaction. We have enough information about the Soviet Union's creditworthiness to justify the loans we have made and, when we feel that we require additional information, we will make it a condition to making additional loans. The Soviet Union has a prime credit rating based on its large gold reserves, over $10 billion at the current market price of gold; its status as the second largest economy in the world; its unblemished record of prompt repayment of its commercial debt established over the years; and the importance to the Soviet foreign economic policy of maintaining that record. The Soviet Union has a top credit rating with the leading commercial banks of the world and the government export credit agencies of other countries. I can assure you that Eximbank will facilitate transactions with the Soviet Union only when it believes that there is reasonable assurance of repayment. Confidence on this score should be reinforced by the Bank's record on repayments, by the record of the Soviet Union in paying its commercial debts, and by the willingness of the export credit agencies of other advanced countries to lend 16 times as much to the Soviet Union as the United States has loaned thus far.

One myth I would like to shatter is that Eximbank is providing the Soviet Union with vast quantities of capital, equipment, machinery, and technology which it cannot get elsewhere. The fact is that Europe and Japan are ready and willing to provide the Soviet Union with both the credit and the products that the Soviets, in some cases, would prefer to get from the United States. As of October 31, 1973, we had commitments of some $600 million in the Soviet Union, Yugoslavia, Poland and Romania, while our five principal competitors--the official export credit agencies of England, France, Germany,

Italy and Japan--had committed about $8.9 billion in these countries. Our commitments as a percentage of the commitments of our five competitors amount to 2.36% in the Soviet Union, 22.7% in Yugoslavia, 3.98% in Poland, and 5.09% in Romania. Since October 31, 1973, our commitments to the Soviet Union increased from $104 million to $289 million. On the unlikely assumption that our five principal competitors did not increase their loans to the Soviet Union since last October, their commitment to the Soviet Union will still be 16 times as great as ours.

Japan and Europe are selling to the East the same types of industrial products which U. S. exporters are selling in the four Eastern European countries for which Eximbank financing support is available. For example, Eximbank loans to the Soviet Union are supporting U. S. sales of such things as machinery, spare parts and tools for truck plants; equipment for tableware plants; assembly lines for pistons; crankshaft transfer lines for machine flywheels; machine friction drums for tractor and automobile plants; knitting machines for wearing apparel; submersible electric pumps; equipment for an iron ore pellet plant and for an acetic acid plant; and canal building equipment. These are all non-military items, which are readily available from the other industrial countries as well as the United States.

The Soviets want us to know that they are not without alternatives, that they are not dependent on us. For example, on the Kursk Iron Ore Beneficiation and Steel Complex, the Soviets seem to have decided that sufficient financing would not be available from U. S. sources and U. S. companies never got a crack at it. A West German consortium got the project. We lost very large exports plus the opportunity of getting long term contracts

for the supply of two million tons per year of direct reduced pelletized iron, a material roughly equivalent to pig iron or scrap which we are finding increasingly more difficult to obtain.

Let me assure you that we at Eximbank examine each transaction for possible adverse effects upon the U. S. economy, as we are required to do by statute. Beyond that, the United States has an export licensing system administered by the Department of Commerce to control the shipment of items which could make a contribution to the military strength of the Eastern bloc and which are not otherwise available.

In 1969 Congress established that it is the policy of the United States both to encourage trade with all countries with which we have diplomatic or trading relations, except those countries with which such trade has been determined by the President to be against the national interest, and to restrict the export of goods and technology which would make a significant contribution to the military potential of any other nation which would prove detrimental to the national security of the United States. In carrying out this policy, the Department of Commerce requires that certain commodities not be exported without its specific approval. Most of these commodities usually have both civilian and strategic uses and their export also is controlled by 14 other free world countries that are cooperating with the United States in an international security control system.

By virtue of this system, nothing is exported with the help of Eximbank financing or otherwise without a determination that the item to be exported does not contain advanced or unique technology or otherwise have potential military value which could impair the security of the United States. The

Departments of State and Defense with input from our intelligence agencies and specialized technically qualified agencies such as AEC and NASA participate in that determination.

I want to emphasize that Eximbank's directors are as concerned as anyone with maintaining and protecting our national security and we recognize that, quite apart from the strategic potential of a specific export, trade can build the economic strength of another power and that economic strength can contribute toward military potential.

To large extent this is a matter of magnitude and proportion. Soviet imports of investment goods from Western countries ran about $2 to $2.5 billion in 1973, and that amounted to about 1 percent of what the Soviets themselves are able to invest each year in building their economy. The United States accounted for about 10% of the equipment which the Soviets received from Western countries so that we can be said to have added 1/10th of 1% to what the Soviets did for themselves.

We recognize that contributions of trade could increase the strength of the Soviet economy to a degree which, to some extent, would exceed that indicated by the magnitude and proportions of that trade in relation to the $600 billion Soviet economy, about half the size of ours. But without this trade, the Soviet Union has achieved a military capability so great that any increments from this trade would not appreciably increase the damage they could inflict if we should fail to maintain the peace.

The present rate of Eximbank lending to the Soviet Union is less than 1/4 of 1% of the amount which the United States and the Soviet Union spend each year in the military competition between them. It certainly seems

reasonable and prudent to proceed at this pace, or even a little faster, to see whether these economic relationships with the Soviet Union are likely to lead each of us to find greater self-interest in economic cooperation than in military competition. Certainly we have a great deal more to gain in reducing the cost and the dangers of military competition than we have to lose if the experiment of economic cooperation should fail. Certainly we should pace and measure our economic cooperation in relation to its impact on our security and progress in limiting the cost and the risk of the military competition which presently prevails. Certainly, it is reasonable to proceed prudently with economic cooperation to see if we can develop a reasonable prospect that resources will be shifted from armaments to better living standards.

Let me now turn to the hard economic benefits that can come from Soviet trade. One example is the Soviet-U. S. fertilizer deal which we believe to be a good deal for many reasons, including the following:

1. The leverage is right. An Eximbank loan of $180 million would produce the sale of $400 million of pipeline, storage tanks and ammonia plants manufactured in the United States. The additional $220 million will come from the Soviet Union and a syndicate of private U. S. banks.

2. The exchange is right. In exchange for superphosphoric acid, which we have in relative abundance, we receive two nitrogen fertilizers (ammonia and urea) which are scarce plus potash.

3. We save energy. The nitrogen fertilizer we receive will be made with Soviet natural gas. To manufacture the needed fertilizer here would require a drain on our own natural gas reserves in an amount large enough

to heat over a million U. S. homes. The ammonia and urea imported into the U.S. will have an energy content equivalent to 25 million of barrels of crude oil per year.

4. Jobs will be created in the U.S. More than half a billion dollars will be invested in the U. S. to construct ships and to expand production facilities to mine and process phosphate rock in Florida. It is estimated this will create 2 to 3 thousand construction jobs and 2,900 permanent jobs.

5. It will help our balance-of-trade. In addition to the sale of at least $400 million in equipment, there will be substantial further balance-of-trade advantage. We can acquire needed fertilizer from abroad in return for exporting materials in ample supply in the United States, thus avoiding a net drain on our trade balance.

In short, we have a project which promises concrete benefits to us, contributes to world food needs and will happen in any event. If Eximbank fails to provide the financing, the U. S. will lose the benefits I have outlined. The project is in the Soviet 5-year plan and will go forward, but the contracts and benefits are likely to go to French, Italian, British and Japanese suppliers.

As an aside, we have here a situation which demonstrates why Eximbank's Directors do not believe that they are free to agree not to implement a law which is on the books though many in Congress have indicated an interest in restricting its application. Here we have a deal which we believe to be beneficial to the national interest in many ways and where the American sponsor of the project has substantial equities. Eximbank issued a preliminary commitment on this fertilizer complex some months ago. On the basis of this, fees are being paid against financing commitments from private banks,

and contracts have been made with suppliers. These arrangements carry expiration dates at which time costs will increase. On the basis of its contract with the Soviet Union and Eximbank's commitment, the U. S. supplier has spent upwards of $2 million in designing and planning the project.

There are other proposed deals in which the sponsors believe there can be substantial benefits to the United States. You hear about the large projects to bring natural gas by pipeline from Siberia to the Artic and to the Pacific, thence by LNG ship to the Eastern United States and to the Pacific states. These projects have not yet taken concrete form. Engineering and capital requirements have not been finalized. There has been no agreement on price, no application to the Federal Power Commission for import of the gas and no application to Eximbank for development financing. We have been informed one of these projects would require U. S. goods and services currently projected to cost $3.7 billion. If application were made to Eximbank on this project, we would not be able to handle it or any major part of it under our proposed loan limitation of $3.395 billion for fiscal year 1975 without impairing our ability to finance exports in established markets elsewhere in the world to a degree which we would not be willing to do.

If it were considered desirable to finance this project, Congress would have to increase our loan limit and Eximbank's Directors would have to satisfy themselves that there would be no adverse consequences to our domestic economy. Adverse consequences might be foreseen because the export of necessary goods and services could be more advantageously used to develop domestic energy sources or because the price of the gas and the degree of dependence on that particular source of supply would be excessive. I think

it would be a mistake for Congress or anyone else to make any judgment on those questions without fuller knowledge of the particulars than is available at this time. Certainly, executives with great experience who have studied the question deeply believe that it will be necessary to develop gas sources overseas in order to meet our energy requirements in the future. They believe that this project can be advantageous to the United States.

I would be as deeply concerned as anyone if we permitted ourselves to be dependent on Soviet energy sources to such a degree that we would not be able to adjust satisfactorily if they were cut off. But it seems to me that we actually improve our position on energy sources as we diversify them. Soviet energy continued to flow to Europe during the Arab embargo. Of course, we want to develop as much of our needed gas supply as we can here at home through exploration and manufacture of synthetic gas, but we are by no means sure that these efforts alone will meet our needs and that additional and more diversified imports will not be necessary. If Siberian sources turn out to be economic, we may decide that it would not be imprudent to rely on them to the extent of between 1 and 2% of our national energy requirements and possible 10% of local gas requirements which, as we understand it, is the rough magnitude of the two gas projects under study in Siberia.

As to capital requirements, gas from these sources would be financed very substantially by labor and capital contributed by the Soviet Union. They would not necessarily compete for the drilling rigs, the coal mining equipment, facilities for manufacturing synthetic gas and oil, nuclear reactors and such

They could ease the adverse balance of payments and price consequences of our present dependence on Middle East fuel. It will take a good deal of time to study and evaluate these projects, and all I am saying today is that we should not rule them out before they have been fully formulated and evaluated.

I would like to comment on proposals that loans to Communist countries should require a Presidential finding that the transaction is in the national interest or that they should be subject to Congressional review and veto. It seems to me that requirements of this kind would not be good for the Congress, for the President, or for Eximbank and its purposes. Neither Congress nor the President can or should perform the function of Eximbank or its Board of Directors.

Congress should and does have control over Eximbank's operation by framing its mandate and limiting its authority to make commitments each year. Let me spell out why we believe that it is neither necessary nor desirable for Congress to undertake to approve or disapprove specific loans. We do not see how Congress can undertake the burden and responsibility of analyzing a credit proposal. We doubt that individual legislators and their staffs, assuming they had the technical expertise, can or should devote the time necessary to ascertain whether a particular project is financially, economically, and technically sound. This type of examination and decision is the responsibility of Eximbank's Board of Directors; and if Congress is going to superimpose its judgment on specific loans, it will either become a rubber stamp or usurp the functions of the Board of Directors. Either result will be detrimental to Congress, the Bank and our export trade.

Congress does and should limit the authority it gives the Directors and keeps them on some kind of leash as to the extent to which they can exercise that authority. But this should be done on a general plane rather than in a way which requires Congress to make a judgment on specific loans. I believe the present arrangement does that quite effectively. Each year Congress sets a limit on the amount of loans which Eximbank can make. The limit for this fiscal year is $3.8 billion. Eximbank's directors have a responsibility to operate within that limitation to provide financing for American exporters operating in markets throughout the world. In practice this places an effective limitation on the amount to be committed in any one country. I would think that this power to set a limit on Eximbank's authority to lend each year provides the Congress with effective control over Eximbank's operations without requiring the Congress to make a judgment on particular transactions.

It would impair Eximbank's ability to perform the functions which Congress has assigned to it, if the judgment of Eximbank's directors became subject to Congressional veto. Eximbank is required to compete with export credit agencies maintained by the governments of 15 other industrialized countries. I believe a good many borrowers would prefer not to do business with a bank which would have to put them in a position where they could be publicly jilted at the altar and would provide their competitors with the opportunity to zero in on a prospective deal in which they had invested a great deal of time and money. Certainly, no bank in the history of the world has had to operate that way and I am afraid we would look foolish and impair our competitiveness if we tried.

These transactions require reasonably quick action on the part of Eximbank. Adding an additional waiting period will seriously weaken our exporters' efforts to win contracts against foreign competitors. None of the credit agencies in Europe or Japan are required to submit specific transactions to their legislatures for concurrence, and it would be a severe handicap if American exporters were to be put at that kind of a competitive disadvantage. While the price and engineering of an entire transaction are exposed to public view with all the attendant uncertainties such a procedure entails, our competitors can walk away with the business and our economy will lose jobs and badly needed trade and that will weaken the dollar and increase prices.

We feel much the same way about requiring the President of the United States to make specific findings about a specific business transaction. Certainly his responsibility is that of a policy-maker and administrator and he should be able to delegate the execution of policies and administrative directives. I submit that the present procedures, quite apart from any question that may arise about the interpretation of the present statutory language, are what they should be. Between the President and Congress, a determination should be made as to the countries in which Eximbank credits should be made available. Once that decision has been made by the President and Congress its execution should be delegated to Eximbank and its Directors. To expect the President or the Congress to make judgments on specific transactions would dilute and confuse their important policy-making role. Thus, while the requirement of a Presidential finding before a loan decision becomes final would not impair

Eximbank's effectiveness in financing in the same way as it would to make Eximbank's loan decisions subject to public review and veto for a period of time, it would place on the President a burden and reponsibility which has been delegated for many years without adverse consequence.

Proposed Legislation

The changing world trade situation, the prospective new business we see ahead, the rate of increase in normal transactions experienced over the past few years all seem to justify the increase in Eximbank's commitment authority called for by H. R. 13838.

We are now estimating that as of June 30, 1974, the charge against Eximbank's $20 billion commitment authority will be $17.6 billion. We project that the $5.6 billion loan authorization requested for FY'75 would bring us $800 million over our present $20 billion authority. Charges against the $10 billion fractional reserve insurance and guarantee limitation, as of June 30, 1974, are estimated at about $9 billion. Projecting increases in credit requirements at a 17-20% rate, which seems reasonable in the light of the 20% increases of the past two years, an additional $10 billion in overall commitment authority and in our guarantee and insurance fractional charge authority will carry us into FY'78.

In this connection, I would like to emphasize again what I said earlier. First, in its request for the $10 billion increase in its commitment authority, Eximbank has not taken into account financing in the magnitudes which would be required for the development of the huge Soviet gas and oil projects. Second, if these projects do mature and appear to be in our interest, Eximbank would have to request the amounts needed to finance them in its annual budget presentation or in a supplemental request to Congress.

H. R. 13838 amends the Export-Import Bank Act of 1945, as amended, in the following respects:

-- extends Eximbank's life for four years, from its present expiry date of June 30, 1974 to June 30, 1978.

-- increases Eximbank's overall authority to loan, guarantee, and insure from the present statutory limitation of $20 billion to $30 billion.

-- increases the amount which Eximbank may have outstanding in guarantees and insurance chargeable against its overall authority at 25% of the related contractual liability from the present $10 billion to $20 billion. It is in the guarantee and insurance area that the flexibility of the Bank is most pronounced. The policy of Eximbank is that whenever possible use of the insurance and guarantee authority should be maximized to encourage participation by private sources of funds in order to minimize the use of direct loans from its own resources.

-- amends Section 2(a)(1) to place the power of Eximbank to insure, coinsure and reinsure in the section of the Eximbank Act which specifically enumerates its powers.

-- amends the language in Section 2(c)(1) to avoid any possible contradiction between it and Section 2(a)(1) of the Eximbank Act as it has been amended from time to time.

-- allows Eximbank to contract for printing of documents, reports and other materials necessary to the conduct of its business through commercial printers following established U. S. Government policy and practice. Eximbank has a continuing need for obtaining printed materials of a specialized high quality nature, frequently in a number of foreign languages and in a variety of formats, on a short lead-time basis.

Section 2 of H. R. 13838 would amend the National Bank Act, 12 U. S. C. 82, as amended, to exclude from the aggregate borrowing limit of national banks those liabilities incurred by such banks in any borrowing from the Export-Import Bank. We have been advised that the Comptroller of the Currency has no objection to this amendment of the National Banking Act. We have also been advised by several national banks that removal of this limitation will allow them to become substantially more aggressive in financing exports on a continuing basis.

Another ambiguity in Section 2(c)(1) of the Export-Import Bank Act of 1945, as amended, has arisen which we believe should be clarified at this time. As presently enacted, this Section requires Eximbank to establish and maintain fractional reserves at not less than 25% of the related contractual liability which Eximbank incurs for guarantees, insurance, coinsurance and reinsurance against political and credit risks of loss and permits the Bank to charge only 25% of the related contractual liability for up to $10 billion of guarantees and insurance against its maximum commitment authority of $20 billion set forth in Section 7.

In examining the legislative history surrounding the original enactment of Section 2(c)(1) in 1961, it is clear that the Congress and Eximbank were not discussing the establishment and maintenance of reserves of a technical accounting nature under which the Bank would be required to maintain a balance sheet reserve account equal to 25% of the contractual liability incurred for guarantees, coinsurance and reinsurance. We therefore are requesting a further amendment to clarify this. We will submit to the Committee a detailed explanation and language for the proposed amendment.

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As the Committee is aware, even though the foregoing request sets a total commitment authority for Eximbank during its statutory life, Congress maintains annual review of Eximbank's operations and year-to-year approval is required. Eximbank's annual business plan, including limitations on new program activity, authorizations for equipment and service loans, administrative expenses and entertainment expenses, will continue to be submitted to the Congress each year by the President for review by the Appropriations Committees and approval by the Congress.

Therefore, Congress through its annual budget authorizations for Eximbank will control the rate at which the Bank can utilize the increases in authority requested in H. R. 13838.

Let me say a few words in support of the broad authority and the guidelines which the Congress has provided for the operation of Eximbank. The flexibility that Congress placed in the Eximbank charter, as amended from time to time, has created an institution of great versatility which has been available and useful in serving our own Nation's interest along with those of our allies, friends, and customers abroad in many different periods of changing needs for them and for us. Eximbank's ability to be able to adapt to changing conditions under its mandate from Congress is particularly valuable today when we find ourselves confronted with new circumstances and requirements. We most strongly urge that the Congress, in acting on Eximbank's life extension and commitment authority, continue the pattern which it has so wisely adopted in its past actions by not placing unnecessary and burdensome restrictions on the operation of Eximbank. To do so could cripple Eximbank's ability to compete with other countries in financing support for export sales.

In addition to H. R. 13838, there are several other legislative proposals relating to Eximbank pending before the Committee on which I wish to comment.

Let me assure the Committee that Eximbank is not unmindful of these, particularly H. Res. 774 which would express the sense of the House that Eximbank should not extend further support for exports to the Communist Countries covered by the Vanik Amendment to the Trade Bill until the Senate acts on that measure. For Eximbank this measure would apply to the Soviet Union and Romania.

Eximbank's Board of Directors has felt that it cannot change the policies and operations of the Bank in response to legislation which has not been approved by the full Congress and become law but which is still in the process of review under the regular legislative procedures of the Congress. Our Board believes that until the Congress works its will to change the law, Eximbank must continue to meet the statutory requirements which currently exist. We believe that to do otherwise would be unfair to the many U. S. companies which have gone into foreign markets and expended a great deal of time, effort, and money to put together American sales counting on the financing which Congress has directed Eximbank to make available. As Eximbank's Board sees it, until the law is changed it must meet its statutory responsibility, reemphasized by the Congress only three years ago, in providing financing for U. S. exporters which is competitive with the financing being offered by our principal competitors with the support of their governments.

With respect to H. R. 14257 and similar bills, we believe that Congress has already set adequate policy guidelines in Sections 2(b)2 and 2(b)3 of the Eximbank Act for Eximbank operation in the various countries affected. These sections properly vest in the President the authority to determine if and when financing support from Eximbank would be in the national interest and would be in conformance with the domestic and foreign policy objectives of the United States. They also assure, however, that the Congress will be kept informed promptly of such decisions. I think it is important to recognize in this connection that we are not concerned only with transactions in which Eximbank participates through its direct loan program, such as the Soviet cases. These measures would also affect the hundreds of small and medium sized export sales which are financed by the commercial sector and supported by Eximbank through its guarantee and insurance programs. Clearly, the mechanism proposed in the various pending bills would be unworkable because they in effect would vest the responsibility for administration of Eximbank with the Congress. Moreover, unless Eximbank is able to respond promptly and timely to requests for financing support, the American exporter is going to lose the sale to his foreign competition who is able to obtain timely financing support from his government.

Eximbank believes that it has kept the Congress fully apprised of its activities in the Communist countries ever since Congressional concern was first expressed in 1963. In addition to the President reporting his determinations with respect to making Eximbank financing available in the Communist countries, as required by law, Eximbank has reported regularly its activities in these countries and in addition has testified each year in both houses of

Congress on this matter during its annual budget hearings. Its activities in these countries have been discussed fully with this Committee and its Senate counterpart each time the Bank's enabling legislation is under review--which in the last few years was in 1967, 1968, and again in 1971. Eximbank also reports all of these transactions in its annual report to the Congress.

We believe, Mr. Chairman, that Eximbank has operated satisfactorily under the policy guidelines laid down by the Congress and has diligently worked with the Congress to assure that its activities have conformed to those guidelines. We, of course, will continue to keep the Congress fully advised of all Eximbank activity under whatever mandate and guidelines the Congress sets for Eximbank and be ready to discuss at any time with this Committee any matter of concern relating to Eximbank.

Mr. Chairman, my colleagues and I now will be pleased to answer any questions which the Committee may have.

Mr. Ashley. Thank you, Mr. Casey. Inasmuch as this is your first visit before this subcommittee, I want to commend you for a very thorough and very frank statement.

I think you have addressed yourself not only to the pending legislation, but to the problems that have been discussed before this subcommittee with previous witnesses and I want to congratulate you on a first-rate statement.

Mr. Casey. Thank you, Mr. Chairman.

Mr. Ashley. I will have questions for you, Mr. Casey, but I will turn now to Mr. Rees.

Mr. Rees. Well thank you, Mr. Chairman.

Mr. Casey, I am very much in favor of the Eximbank and the extension without any further restrictions. What bothers me is that the Bank has to be reauthorized by June 30 of this year or it will cease to exist.

The Bank made quite a few controversial loans during the past 6 months, before you were confirmed as the head of the Bank. One series of loans was to the Soviet Union and there was a great deal of discussion about natural gas development. This occurred at a time when the House had just voted overwhelmingly in favor of the Jackson-Vanik amendment, and a majority of the U.S. Senate was on record of the Jackson-Vanik amendment, so that obviously the congressional feeling toward the Soviet Union was not overly friendly, because of the problem of Jewish emigration.

Then about 4 months ago the Eximbank approved the loan to Egypt for the construction of a pipeline from Port Said to Alexandria, I believe; and this loan was made at a time when Israeli troops occupied much of the area that the pipeline was supposed to go through.

This was also during a time when Egypt was in the forefront of developing the oil boycott against the United States. I checked the latter loan and found that the pipeline was to be purchased in Japan; that most of the oil reaching Alexandria was going to be shipped to Europe, not to the United States; it was basically a European pipeline. About the only U.S. input was the contract by Bechtel Engineering to do the engineering on the pipeline.

Then I read, just a week ago that Bechtel, had backed out of the deal and had assigned its rights to an Italian engineering firm. All of this makes those of us in Congress leery about the Eximbank. I would like to get some idea about why some of these loan commitments were made, especially since the detailed papers on the cost of the pipeline and the cost of the natural gas facilities and LNG facilities in the Soviet Union really have not been worked out in detail.

As I said, all of this occurred long before you became a director of the Bank.

Mr. Casey. Well, let me try to give you my thinking on these problems. In any event, I think we have to realize that these transactions develop over a period of time.

American exporters, American engineering firms, go out and work at them and develop them, sometimes over a period of years, and they make that commitment on the basis of the present policies and the statutory directives that give them a basis for believing that they can get financing competitive with the financing which is available to their competitors.

Unless there is an American content in those projects, and only to the extent of that American content, will disbursements on the loan actually be made.

Now I think that the SUMED situation is a very complex one, but it is a very good example, I think, of the way these things evolve. Of course the work on it was started well before the outbreak of the Israeli war and before the embargo. It was contemplated that the work would be carried out afterward.

We had an American firm which had developed a project and, at that time, seemed to have the best price so they were able to get the deal. I do not know exactly what the state of our relationship was with Egypt at that time, or if we had a problem, but we were looking down the road.

It is in our long-term interest to maintain relationships with Egypt and with the Arab States. I think it is important to maintain a going economic relationship with those states because we are going to have to sell them things to get back the money that we will have to pay them because we need their oil.

We are going to have to sell them things to do that. That is going to be essential to maintain world monetary equilibrium. It is going to be essential to maintain the value of our currency and the balance of payments.

As it has turned out, the SUMED deal is apparently going elsewhere because the prices went up and, although the American engineering firm will probably be there in some capacity, the pipeline will probably come from Italian or other foreign sources. So instead of $100 million in financing, which it was originally contemplated would be required from us to sell the American content of that pipeline, our participation will probably be down to $8 or $10 million.

Mr. REES. But pipeline was already coming from Japan at the time you made your original commitment. It was not coming from the United States because we did not have any pipeline.

Mr. CASEY. Well, if it was coming from Japan, we could not have made any commitment to finance the pipe. We can only make a commitment to the extent of the goods and services coming from the United States.

I think this has gone back and forth. I have not followed all of the shifts in that transaction, but the fact is that it illustrates an important thing—that there is competition for these projects.

The Japanese wanted it; the Italians wanted it; American firms wanted it. Now, as it turns out, they are not going to have Eximbank financing to any great degree.

We are not going to stop the project. It is going to happen anyway. The project is going to be built. They will get other people to do it. Our firms will have lost the business.

You say that the oil is going to Europe. Well, to some degree, the world is interdependent on energy. The oil that goes to Europe is going to help us in terms of price and if Europe does not have oil, or if Europe has oil at too high a price, that is going to cost us something in terms of our trade markets and otherwise. You cannot isolate the effects of an individual transaction in this kind of world we have.

Mr. REES. Well, Mr. Casey, my time has expired. I had hoped, though, that those of us who were friendly toward the Eximbank

could get an explanation, because with the loans that have been made, it makes it very difficult to get the votes on the floor that will be necessary to reauthorize, without the amendments.

Mr. CASEY. We are all anxious to explain the considerations on those cases. The Bank made the decision which it thought it should make in those cases based on its present legislative mandate.

Mr. ASHLEY. The Chair is going to hold to the 5-minute rule because there is a good deal of interest among the members in the questioning of Mr. Casey.

It is anticipated, of course, that we will come back for a second and third round; that Mr. Casey will make himself available until the job, of course, is concluded.

Mr. Blackburn?

Mr. BLACKBURN. Thank you, Mr. Chairman. Mr. Casey, I want to welcome you to our subcommittee.

I will be very candid with you. I do not share the accolades that Mr. Ashley has expressed regarding your statement. I think you have taken every discretionary judgment in favor of Soviet trade and stretched it; in some instances, perhaps, beyond the bounds of legitimate discretion.

You made a statement that the Soviet GNP was running about $600 billion a year, I believe. You also said that they were plowing back some 30 percent of that into internal development.

If they are putting $180 billion a year into their capital improvement, why do they need to piddle around with loans from the Eximbank or anybody else?

Mr. CASEY. Well, I suppose that they do not need to.

Mr. BLACKBURN. Well why are we giving it to them?

Mr. CASEY. We are loaning it to them because we have an interest in selling American goods in the world and because a judgment has been made by the President and by the Congress that we have an interest in trading with the Soviet Union.

Mr. BLACKBURN. Well I challenge your conclusion about the congressional intent. When Congress passes laws saying you should not be extending credit to them except under certain circumstances, and you see fit to plunge full ahead, I wonder, are you really concerned about congressional intent or do you have to wait until Congress is ready to put you out of business before you take it seriously?

Mr. CASEY. Well, Mr. Blackburn, I am sure you understand that when Congress passes a law, we are going to adhere to it faithfully. The last time Congress expressed itself on this was in the Export Expansion Act of 1971, which gave us specific directive to carry on and is the law on the books.

Mr. BLACKBURN. Well then, let me make this observation. Apparently you are unaware of some of the real developments in the world; you do not pay much attention to what we do on the floor of Congress until it is written on the lawbooks and you can read it.

I suspect there are some other things of which, maybe you are not thoroughly aware. Are you aware that originally, the Russians were trying to get 6-percent loans from the German's Consortium on the Kursk Mill?

Mr. CASEY. I read that in the press.

Mr. BLACKBURN. That the Germans would not agree to give them a loan at less than 11½ percent? The Russians now have agreed to pay $1 billion in cash.

Now, if the Germans can get $1 billion in cash, why cannot we get some cash? Let us look at some of the economics of Soviet trade right now.

We are exporting to them $8 worth of goods for every $1 worth of goods they are exporting to us. How in heaven's name can they repay those loans.

You say you are not giving the Soviet Union any special treatment? The Soviet Government, itself, says they are not going to tell you anything about their true economic conditions, yet you are giving them loans.

Here is a statement by Mr. Alkimov, a very charming gentleman, but a thoroughly devoted member of the Russian establishment. He says, if we published our reserves, you might say we do not need credit. He indicates that, when they wanted to buy the German steel mill, they proved they did not need credit or, if their reserves decreased, you might say they are not reliable.

Now how can you say you are getting all of the economic doubting you need from the Russian Government when they are able to shell out $1 billion when they want something bad enough? Why do you not drive a hard bargain like that and let them pay cash?

Mr. CASEY. Well, you know, Mr. Blackburn, you are making a great deal out of one transaction.

Mr. BLACKBURN. Well, I think one swallow does not make a spring, but a $1 billion cash deal here is not exactly a swallow.

Mr. CASEY. We do not know very much about that deal. I have read speculation that the Germans might have made an adjustment in price which in effect gave the Russians the equivalent of the interest rate they wanted so in that transaction the Soviets decided to pay cash in addition to very substantial loans from the Government of Germany.

Now that does not mean they are going to pay cash in every transaction. We know that world trade does not operate primarily on cash. World trade operates on credit. The cash deal, by far, is the exception.

We know that the Soviets have insisted on credit and have done most of their dealing on credit. We know that the Germans and others have extended $10 billion worth of credit to them over the last 5 years.

Now I do not think that——

Mr. BLACKBURN. Are you aware that last year the Soviet Government attempted to float a $300-million bond issue on the European market and it was rejected—you say they are such a prime credit risk?

Mr. CASEY. Mr. Blackburn, I think if you will check that, it is a testimonial to the fact that they are creditworthy because they sought to float a $300-million loan at a well below market interest rate and nobody would take it. It was not rejected on a credit basis. It was rejected because they wanted to pay too little for the money.

Mr. BLACKBURN. Well, to me, that is all the more reason why we should demand that they pay a market rate on the money that they are getting.

The rest of the world demands it. The Europeans demand it from them. That is why they did not give them the $300 million.

Mr. CASEY. Only, the European private market does not demand it from them. European official credit agencies have loaned them billions for exports at less than market interest rates.

Mr. BLACKBURN. You say we are not exporting jobs? I just read in the paper—again, I do not know where you are getting your information—but I read in a news magazine this morning where Soviet tractors are being sold in New York for $7,500 and a comparable American tractor would sell for $15,000. Now when you talk in terms of a $600-billion Soviet economy—the way the Government is treating Soviet citizens, keeping them in a form of economic serfdom, not to mention political bondage—somebody is really raking in something off the top if they are taking in $600 billion in GNP over there and not giving any more back to their citizens.

Let me express the opinion that perhaps they are maintaining their labor in the form of slave labor. Certainly it is not free labor. Look at the experience of the Fiat plant. They built an automobile factory. Now they are finding automobiles made in that factory are being sold in European markets at far less than Fiat can sell its own automobile.

When we get through with the Kama River plant, how happy is it going to be to see Ford trucks sold in the United States for $2,000?

I say that we are exporting jobs. I say that the history of dealings with the Soviet Union indicates that we are exporting jobs when we build up their productive facilities in that country. I don't mean the history of 25 years ago. I mean things that are taking place today in American and European markets.

I do not see how you can make these bland statements that we are not exporting jobs.

Mr. CASEY. Well, Mr. Blackburn, if I have given you any impression that I am here to endorse the Soviet economy, I want to correct it. I did not say we are not exporting jobs in the sense you use it.

I am saying that we have an economically interdependent world and equipment is going to move around in it and we had better be part of that world; and that if we do not export some jobs, we are not going to create other jobs here. It is a matter of give and take.

Mr. BLACKBURN. Well, I see the give, but I do not see the take. My time has expired. You will certainly have all the time you like to amend your answer and I expect to submit further questions.

Mr. ASHLEY. Mr. Hanna?

Mr. HANNA. Thank you, Mr. Chairman.

Mr. Casey, I wish to extend you a welcome to this subcommittee. I want to underscore my own support for your Bank and its activities. I consider it to be one of the most important attempts of the American effort to be competitive in this important international trade you have spoken of.

In that regard, I would like to ask you, Mr. Chairman, if you are satisfied with what you see as the expression of the American policy in international trade?

Mr. CASEY. Generally, yes.

Mr. HANNA. Are you convinced that you have the ability to articulate precisely what that policy is? All of those ramifications which are ordinarily important to having a policy, as such?

Mr. CASEY. Well, I have made long statements before committees of Congress in trying to articulate them. I am not sure how well I did. I have made speeches on this, but it is a complex subject.

Mr. HANNA. I must say that I am not questioning your own articulateness, because without it you would not have been confirmed.

I am, with many others, not convinced that the United States has developed in its totality and in conformance with the importance of this subject, a foreign economic policy that is clear to all of the people who would be affected by it.

It is my judgment that it is precisely because that policy is not clear, and has not been articulated, that you have got problems with Mr. Rees and with Mr. Blackburn, because they do not understand what it is you are trying to do.

They do not understand how this can serve the interest of the American people. They do not understand how this interrelates with the job situation and the economy of our country.

Now, if they do not have the understanding, I submit to you that that is evidence that something is lacking. I personally would like to articulate that I am firmly convinced that unless this country does a far more active, dynamic job of getting into the full stream of economic international trade, we are not going to be, in this country, as strong 20 years from now as we are right now.

Mr. CASEY. I agree very much with you.

Mr. HANNA. So I just wish you would think about this a little deeper and give me a little more of an answer of just how satisfied you are, given the things you are going to be faced with, that we have actually carved out an understandable foreign economic policy that our people are willing to commit to a policy that our Congress understands, and can intelligently debate about and one that our business community feels comfortable with.

Now, if you see that in existence right now, my friend, you see more, far more, than I can observe.

Mr. CASEY. Well, I certainly do not think that it is not subject to improvement, and I think that we have seen, in the last 6 months, that developments have occurred that require a lot of second thoughts.

Notice the shortage of resources that is emerging. We have had a foreign economic policy which focused on seeking to get access to markets, but it may now well be that getting access to supplies is more important to us.

I agree that the kind of questions that Mr. Blackburn raised about jobs is complex. I said that there is a lot of give and take there, and I think it has not been addressed, perhaps, with full candor. There has been a lot of doubletalk and a lot of kind of concession to deeply held views. I think that people are reluctant to say that in a competitive world, where technology is freely available, that people will be thrown out of work.

An economy does have to change the nature of its level of skills and where its people will commit their time. Our economy has become a service economy. Two out of three Americans make a living performing a service. Only one out of three Americans makes his living producing goods, which are the stuff and substance of international trade.

That means that we have to pay for the things that we need—the fuel, the raw materials to keep our production going and to keep that one-third of the population employed—by selling abroad the products of high technology, of large engineering projects, and financial skills. We have to involve ourselves more deeply in the world economy.

These are the things that are occurring which I do not think have been explained or put across to the American people. And one of the reasons is that we are reluctant to tell people that there will be a loss of jobs because of some of these developments.

We are going to pick up jobs here and we are going to lose them elsewhere, but this is happening. It has already happened. It has happened in two-thirds of——

Mr. HANNA. My time has expired and I would just conclude by saying that I appreciate that you do not have the full say in this deal, but you have a great stake in it and I hope, to the degree that you appreciate and understand that, that you will be a constructive force in helping this country, and particularly this administration at this time, formulate a much better understanding of the people of the United States as to what our policy is, should be, and what stake we have in it. Thank you, Mr. Chairman.

Mr. ASHLEY. Thank you, Mr. Hanna.

Mr. MCKINNEY. Mr. Brown has asked that you precede him and we will come back to him.

Mr. MCKINNEY. Mr. Casey, it is very nice to have you here. I have expressed to some of your people a grave concern I have for the future of the Eximbank within the Congress.

I think probably it started with your taking the brunt for the Commodity Credit Corporation's ridiculous deals with agricultural commodities, which your Bank had no particular involvement with.

I think most Americans started to question our loan policy when we sold a demand product, a demand raw material—in this case, wheat—and I hear also now soybeans, to Iran, when we sold these products at a subsidized level within these countries, with regard to price, and a subsidized interest rate overseas, when, in essence, we had wheat which Russia could not get anywhere else.

Most people decided that that trade was a pretty rotten trade. One of the problems you are going to face—and I would like an answer from you, although as a member of the administration you may not feel you are free to answer this—is that there are those of us here who are beginning to feel that the Eximbank and the entire foreign trade policy of this country, if there is one, is not necessarily a trade policy any longer.

It is, in effect, an adjunct of the State Department's diplomatic policy. How would you feel about that?

Mr. CASEY. I would deny that. I have been at Eximbank only 6 weeks, but I can tell you that we sit there and work hard every day and have three meetings of the Board of Directors a week. We are making judgments on loan after loan after loan entirely in terms of their economic and financial value, their abilities to pay back, and the need to affect a sale. We are attempting to implement a policy of exporting as many American goods as we can and of making American goods play as large a role in the world economy as we can. That is

how we think and that is how the Bank has always thought. There has been no change in that.

Now there are political considerations in the Bank's operation, but these are made at a high level. As I said in my testimony, the Bank does not make foreign policy.

The Congress decided that we should be ready to do business with the Soviet Union. That law is still on the books.

The President decided that it would be in the interest of peace and our economic relationships to try to develop an economic relationship with the Soviet Union. He made a finding that it would be in our national interest to make loans to support exports to the Soviet Union. That decision is a political decision, clearly.

From our point of view, however, that merely meant that there was another territory open in which the Bank was permitted to exercise its authority in financing American exports. And that is how we look at these loans to the Soviet Union.

I want to be as candid with you as I can, and I do not have any hesitancy to answer these questions as best I can. As we seek to develop a new political relationship, which is conceded to be in the interest of the United States, with Egypt, we look at those loans a little more carefully, perhaps, but we still have to meet our statutory requirements and we have to be guided by the need for the financing. The financing has to be necessary to make the project go or to meet the competitive financing offered from elsewhere; and we have to get a reasonable assurance of repayment.

So we are an economic instrument. We operate in a world which, to some extent, is molded by political decisions, and we respond to those decisions, but we do not make them. And we are not subject to deviating from our statutory mandate in order to implement those decisions.

Mr. McKinney. As I said before, there is some confusion in the general body of Congress, as to the fact that you are blamed for Commodity Credit Corporation.

Mr. Casey. We had nothing to do with that.

Mr. McKinney. I think there are 535 people you had better keep saying that to or you are not going to have an Eximbank.

The second thing, a lot of our members are not aware that you just make loans on the applications of American business firms, American business consortiums, and joint foreign and American consortiums?

You do not go out and say, let us make this deal, and then find a business to do it? A business decides to do it and then comes to you for financing. I think you had better point that out.

But there is a feeling—and again I am dealing in feelings, and they are very difficult—but you have to deal with feelings by June 30, or you do not have a bank.

There is a feeling on the part of a great many Members of Congress that American business has forgotten how to compete in the outside world. That in reality, just as Mr. Blackburn said, American industry does not push hard enough for cash percentages; does not push hard enough for higher interest rates; does not push hard enough for original investment on the part of the other nations.

How do you feel about that? I do not want to get you in trouble with every businessman in the country.

Mr. CASEY. Well, business is competitive, and everybody is different. I think American businessmen do go out and compete very hard for business in the world.

I think they have shown, consistently, a growing interest in getting business abroad. I think that statistics show that. That attitude contributes to their ability to get business abroad.

I think it is important to recognize that the kind of things that we can do best are the kind of large transactions that are not cash deals. They do require financing, and the financing is an element in the considerations which the people who pay for the project, weigh when they decide where the deal is going to go.

American businessmen are trying to get the best financing they can, because they think that is one of the ways to get the deal; at least it will help them get the deal. They are not particularly interested in getting cash. They are interested in landing the contract.

One of the things that determines what kind of financing will be in the deal is the interest of the buyer and the choices that are available to him. Now it so happens that generally he can get credit because all countries are seeking to expand their exports and they are all using credit as an instrument. So the credit is available there. If the buyer wants a credit deal, it is available to him, in most cases. So under those circumstances is the American businessman, by himself, going to hold out for cash? Is he going to say to the devil with you, I am going to hold out for cash? If so, we are going to lose an awful lot of deals, our exports are going to go down, the value of our currency is going to go down, and our prices are going to go up.

That is the kind of economic judgment that you are really faced with. You just cannot really say to the buyer that if he won't pay cash, forget it.

Mr. MCKINNEY. I cannot agree with you more. I just wanted to have you say it for the record. Thank you very much, my time is way over.

Mr. ASHLEY. Mr. Frenzel?

Mr. FRENZEL. Thank you, Mr. Chairman.

Mr. Casey, thank you for your testimony. It is—it has, as usual, been an informative morning.

Now Congressman Blackburn took you to task—or took us all to task, maybe—our economy, for not getting more cash on our Russian transactions. He was very concerned about the $1 billion that Russia was willing to pay the Germans.

But, as I recall, you indicated that the Germans were the only country with whom we compete that charged the same rate of interest as we do. Is that correct?

Mr. CASEY. A little higher.

Mr. FRENZEL. But is anyone else in our price range?

Mr. CASEY. Well, the range is not all that far apart. I would say that most tend to be a half a percent below us, but they are able to go a half a percent below us, and, in the case of Japan, they can go 1 to 1½ percent below us.

And further, in the case of most of them, they sometimes can mix aid financing and loans, which we do not do, and thereby go considerably below us. So there is a wide range of possibilities.

Mr. FRENZEL. Well, you have also been taking quite a licking this morning on backing exports to Russia. What percent of our total exports to Russia are backed by Eximbank loans, or guarantees?

Mr. CASEY. Oh, probably 10 percent, or less than 10 percent.

Mr. FRENZEL. So you have not been carrying the brunt of this?

Mr. CASEY. No, we are just starting. Looking at the last year, it might be 10 percent. Looking at the current year, it might go to 3 or 4 percent more or slightly higher. Those are the orders of magnitude. They are not exact figures.

Mr. FRENZEL. Then there was some testimony in your statement about a bill which implies some kind of congressional veto over bank loans.

I presume you have to make these loans with some degree of promptness or the potential sale will be lost. I wonder if you would comment on getting a congressional veto from an outfit that takes 8 months to pass an energy bill, even at the time of an emergency?

Mr. CASEY. Well, I suppose this would not be an 8-month period. It would be a 30 or 60-day period in which a veto would have to occur. But, even there, I think it would essentially put us out of business and make us uncompetitive with the export credit agencies of other countries. This would be true not only because we could not act quickly to close the deal, but because many businesses would not want to put themselves in a position where, as I said in my testimony, they could be jilted at the altar, publicly, and they would not want to have their deal on which they spent a lot of time exposed to the public for 30 or 60 days so that a competitor could come in and walk away with the deal.

Mr. FRENZEL. We had a sensational witness in here last week who indicated that it is only a matter of time before the Export-Import Bank goes bankrupt.

Your report today indicated you were getting along fine. Your income was in excess of your expenditures and that things were going well.

I wonder if you would comment on that statement?

Mr. CASEY. Well, I think he is wrong.

Mr. FRENZEL. Thank you. I do, too.

He also indicated you had a terrible bad debts situation and your statement today indicates that your bad debts are less than those of commercial banks.

Mr. CASEY. About 10 percent of the commercial banks' average.

Mr. FRENZEL. I am interested in knowing how you supervise the loans that you guarantee. Do you have any way to audit those things?

Mr. CASEY. Well, I really think I will have to ask either Mr. Sauer or Mr. Dugan to explain the mechanics of how we supervise our loan repayments.

Mr. FRENZEL. Maybe you could have them do that for the record?

Mr. CASEY. We try to work on the basis of good credit. We generally can count on the reputation and the credit worthiness of the borrower to pay. If we have trouble with collections or if they fall behind in payments, we have to pursue it. For this we have a collections division.

[In response to the request of Mr. Frenzel, the following information was submitted for the record by Mr. Casey:]

Reply Received From Mr. Casey

As aids to monitoring the progress of Eximbank borrowers, the Bank requires periodic submission of financial statements and other reports, including construction progress and operations reports, during the life of the credits. Such reports would alert the Bank to any possible problems which the staff would then proceed to follow. The terms of Eximbank credit agreements impose a number of restrictions which can be waived only by consent of the Bank. These restrictions are intended to reduce the possibility of borrowers over-committing themselves or drastically changing the nature of the project without the express consent of Eximbank.

Whenever a borrower fails to meet a payment of principal or interest due, the Bank's staff makes immediate inquiry as to the reason for nonpayment and discusses the borrower's problem and the situations which led to the failure to pay. There is a very close relationship between the Bank and its borrowers through correspondence and personal contacts, and in the course of these contacts the progress of the credits is discussed and any problems which the borrowers are facing are brought to light. In virtually all cases in which there is the probability of a delinquency, these matters are brought to the attention of the Bank by the borrower and discussed either in Washington or at the site of the project. A summary of credits in which there are major problems or potential major problems is circulated to the senior officers of the Bank for their information and guidance. Recommended resolutions of such problems are brought to the attention of the Board of Directors for its guidance and concurrence.

Mr. Frenzel. This gentleman also indicated that Eximbank was borrowing from Treasury at a higher rate than you are lending. I presume that might be true, at a given moment, but is it not true that your average cost of money is invariably below your lending rate?

Mr. Casey. Yes. I think our current costs may be a fraction over, like 7.02 against 7, but overall we have managed to keep our lending rate in excess of our average borrowing rate.

Mr. Frenzel. I thank you.

This fellow also said that you financed products made elsewhere. He accused Eximbank, for instance, of financing an arrangement whereby an American company might have components or elements of a product made externally, shipped back to the United States, assembled, and then shipped overseas under your loan or your guarantees.

Do you try to defend against that sort of thing?

Mr. Casey. We work on the basis of certification of the U.S. content.

Mr. Frenzel. You do require American exporters to certify that a percentage—their percentage of American involvement in the products that you finance?

Mr. Casey. Yes.

Mr. Frenzel. Did you have a chance to review Mr. Beter's testimony, at all?

Mr. Casey. Yes, I read it. I read his book.

Mr. Frenzel. So did I.

Mr. Casey. He is working on a different wavelength.

Mr. Frenzel. I yield the balance of my time.

Mr. Ashley. Mr. St Germain?

Mr. St Germain. Mr. Casey, would the Eximbank be in a position to guarantee a loan for the sale by the U.S. Postal Corporation—now that it is a separate entity, a private corporation, for the sale of rubber stamps, to a foreign nation?

Mr. Casey. I should think we could either insure it—did you say rubber stamps?

Mr. St Germain. You know, the self-inking rubber stamps that you use for mailing. They are in the stationery business now, by the way. They are now selling items of office equipment. They are losing revenue on postal services and now they have gone into selling office equipment.

Mr. Casey. We could write insurance, or we could guarantee the credit, or perhaps if it were big enough, we could make a loan for that kind of a transaction, although it would not be typical of the kind of a loan that we make.

Mr. St Germain. I watched them closely because I found out they are purchasing these rubber stamps from Japan right now. So I do not see why we are so concerned about what you are doing—when you talk about exporting jobs—when the U.S. Postal Corporation is purchasing rubber stamps from Japan and selling them in the post offices in competition with stationery stores.

Would you, for the record, state that the board of directors meets three times a week?

Mr. Casey. Yes.

Mr. St Germain. Would you, for the record, state for us what your checklist is when you sit down to examine and determine whether or not you are going to approve a particular guarantee or a particular loan? What the checklist is? What criteria you, the board of directors use—not the long, flowing language, but the nitty gritty—but what you look at?

For instance, concerning the economic impact of this loan on the United States. Would you supply that for the record?

Mr. Casey. Yes. Do you want me to do it now, or do you want me to do it for the record?

Mr. St Germain. Well, do you feel that you can do it now?

Mr. Casey. Well, I could give you the main considerations.

Mr. St Germain. Then you could supplement it for the record.

Mr. Casey. We satisfy ourselves that it is a bona fide U.S. export sale and that the loan is needed to make the sale. We satisfy ourselves as to the credit worthiness of the buyer. We satisfy ourselves as to the engineering feasibility of the project. We get reports from our credit analysis people and from our loan officers, telling us about features of the loan.

We get a report from the research staff which tells us about the financial condition of the country to which the export is going. Will the borrower be able to make payment? Will the country have the foreign exchange? Are their reserves good enough? Most of the considerations are credit in nature.

We satisfy ourselves that there are no adverse consequences to the United States and its domestic economy in the loan, as is the case where shortages might be involved, and other such possibilities.

Those are the things that appear in the loan recommendation and loan analysis which comes to the Board for action.

Mr. St Germain. I did not hear you mention in the list of items just now—and, of course, this has been brought up by other questioners, so I am not going to go into detail—the impact of the loan on employment in the United States.

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Mr. CASEY. Well, that is one of the elements as to whether there are adverse consequences to the domestic economy.

Mr. ST GERMAIN. You stated "adverse consequences" as far as shortages are concerned.

Mr. CASEY. Well, jobs would be another one, if that were to be clearly discernible. But as I said in my testimony, these things cannot be measured with very great precision, so you make rather broad judgments.

Mr. ASHLEY. Would the gentleman yield at that point?

Mr. ST GERMAIN. Certainly.

Mr. ASHLEY. I asked you to yield because Mr. Biemiller, the witness for the AFL-CIO has expressed considerable concern over possible adverse effects on the U.S. economy, which he feels would ensue as a result of many Eximbank loans.

It occurs to me that it might be good if, for the record, you could outline, in somewhat greater detail, the precise procedures which the Bank follows to insure that the Bank's loans are not counterproductive in this regard, so that the statutory requirement is being fulfilled.

Mr. CASEY. I think that in most of these transactions which are being financed, the fact that the equipment, or whatever, is broadly available in the world, satisfies you that there is no adverse impact on the U.S. economy in making the loan, because if the equipment is available from another source we would still have the same adverse impact from the project whether we financed the export of U.S. equipment or equipment was obtained from some other country.

But I would be glad to submit a statement for the record.

Mr. ASHLEY. It might be good, were that done.

[In response to the request of Chairman Ashley, the following information was submitted for the record by Mr. Casey:]

MAJOR FACTORS CONSIDERED BY EXIMBANK IN REVIEWING LOAN APPLICATIONS

1. The products or services being financed must be of U.S. manufacture or origin, so that in the first instance U.S. suppliers benefit from Eximbank loans.

2. The products must be destined for exportation from the United States to eligible foreign markets.

3. The creditworthiness of the borrower, whether private or government, must offer, in the judgment of the Board of Directors, a reasonable assurance of repayment. In the case of private companies, this involves an examination of the company's financial statements, balance sheets, commercial experience, reputation, and the economic and technical soundness of the project. In the case of a government borrower, this assessment involves an examination of the country's overall economic, financial and political stability, including its past record, its current position and projected future position as it would relate to the ability to repay its indebtedness in U.S. dollars, as well as the economic and technical soundness of the project.

4. The requested financing must generally be for specific purposes.

5. The proposed financing is examined to see whether it will have any adverse effects on the U.S. economy; that is:

a. whether the export sale will result in a loss of jobs for American workers;

b. whether the product produced in the overseas plant will be exported to the United States to the detriment of American industry;

c. whether the product produced in the overseas plant will be exported to third countries in competition with U.S. exports;

d. whether the product produced in the overseas plant will displace exports from the United States to the borrower's country;

e. whether there is competition so that the production facilities would be constructed and the products would be produced and marketed in any event; and

f. whether the products being exported are in short supply and needed in the United States.

6. The credit terms and conditions must be appropriate for the transaction and generally competitive with terms and conditions available to major foreign competitors.

7. Eximbank endeavors to satisfy itself that private capital is not available on reasonable and competitive terms and maximizes private capital participation in its loans.

Mr. Ashley. I have a series of questions which I really want principally for the record and I will submit those with the understanding that responses will be available to us as promptly as possible.

[The following are written questions submitted by Chairman Ashley to Mr. Casey, along with Mr. Casey's answers:]

Question 1. On page 16 of your prepared statement, you point out that Ex-Im's interest rate is uniform for all countries in which it is presently doing business. One of the members of Congress who testified before the Committee suggested that "perhaps we should have a fluctuating interest rate for different transactions." Please comment.

Answer. Your first question indicated some concern for Eximbank using a uniform rate as opposed to using a fluctuating interest rate for different transactions. Eximbank has found over several years' experience that the uniform rate is the fairest. We do not believe that as a Government agency we can discriminate against some countries in favor of others. To use a fluctuating rate would clearly penalize the less developed countries because of the greater risk involved in transactions to those countries when those countries are less able to pay higher rates. The further advantage of a uniform rate is that it allows the buyer to specifically calculate the total costs involved in any purchase. This allows the U.S. seller in making his presentation to include total financing costs, thereby achieving the most favorable results surrounding the U.S. sales package.

The Bank's investigation shows that the export credit agencies of the other industrialized countries use basically the same policy of charging a uniform rate to all customers at any one time.

Question 2. On pages 14 and 15 of your statement, you indicate the significant growth of the discount program, something which was encouraged by this Committee in 1971. You point out that this program fosters exports without unnecessary drawings against Ex-Im Bank. Might not this program be further encouraged, in contrast to the direct lending program, in that it does not involve the concessionary financing which has been the subject of criticism by many members of Congress?

Answer. Your second question relates to Eximbank's discount program. The discount program would not work satisfactorily for long-term direct project or product loans for two main reasons:

1. Under the discount program Eximbank charges the commercial bank 1% less than the interest yield to the commercial bank but in no event less than the prime rate. Today this would mean the rate to the buyer would be 12¼% per annum. Such a rate for long-term direct loans would render the American exporter completely uncompetitive on financing costs. Eximbank must lend a significant portion on project and product loans at its current lending rate—7%—in order to accomplish a blended rate which is competitive with what is available abroad.

2. The discount program is useful and is designed primarily for one to five-year credit terms which commercial banks generally are willing to finance without necessarily coming to the Eximbank for funds. The discount program performs the function of a back-up in case of severe illiquidity. Direct project loans range from 7 to 15 years and are longer than most banks will finance without a firm substantial commitment from Eximbank. As noted above, Eximbank's 7% rate is needed to make the over-all cost competitive.

Question 3. In the latter part of 1973, Ex-Im Bank announced a new program to support the sale of U.S. equipment from overseas dealers and distributors to end-users. The new coverage is in addition to support for financing sales from U.S. exporters to foreign distributors. May this not involve Ex-Im Bank in domestic finance programs in foreign countries, beyond the scope of its authority?

Answer. Your third question relates to Eximbank's authority to support sales of U.S. equipment from overseas dealers and distributors to end-users. This program does not involve Eximbank in domestic finance programs in foreign

countries. Under the Export-Import Bank Act of 1945, as amended, the objects and purposes of the Bank are "to aid in financing and to facilitate exports . . . between the U.S. . . . and any foreign country or the agencies or nationals thereof." It is under this authority that Eximbank completes the total export by supporting sales through middle men to end-users. The coverage under this program is offered only to the U.S. exporter and is not offered directly to an overseas dealer or distributor.

Question 4. Under the Cooperative Financing Facility, what is the amount of the line of credit extended to each of the 282 banks indicated in your testimony? For each of the 282 facilities, what is the amount of the credit line that has been used? Please indicate the total CFF line of credit and the total use of it at this time.

Answer. Your fourth question relates to the Cooperative Financing Facility. There are presently 342 banks with which Eximbank has CFF agreements. Of these, 178 banks have requested and received subloans under this facility. A detailed schedule relating to this facility and the subloans follows:

Cooperating institution	Amount of CFF	Number of export loans	Amount of loans (EIB portion)
Algeria:			
1. Banque Exteriedre D'Algerie	$10,000,000.00	1	$464,058.00
2. Banque Nationale D'Algerie	5,000,000.00	2	286,285.00
Ivory Coast:			
1. Banque Internationale pour le Commerce et L'Industrie de la Cote D'Ivoire (BIC)	1,500,000.00	0	0
2. Societe Ivoirienne de Banque	1,000,000.00	0	0
Kenya:			
1. Commercial Bank of Africa Limited	250,000.00	0	0
2. Industrial and Commercial Development Corp	3,000,000.00	0	0
3. Kenya Commercial Bank, Ltd	500,000.00	0	0
Morocco:			
1. Banque Marocaine du Commerce Exterieur	500,000.00	0	0
Nigeria:			
1. United Bank for Africa, Ltd	1,350,000.00	0	0
Senegal:			
1. Societe Generale de Banques au Senegal	500,000.00	0	0
Tunisia:			
1. Union Bancaire pour le Commerce et L'Industrie	500,000.00	0	0
Zaire:			
1. Banque de Kinshasa	500,000.00	0	0
2. Banco Comerciale Zairoise	5,000,000.00	11	164,878.27
Zambia:			
1. Commercial Bank of Zambia, Ltd	500,000.00	0	0
2. Grindlays Bank International (Zambia), Ltd	500,000.00	0	0
Australia:			
1. Australian International Finance Corp., Ltd	5,000,000.00	2	477,000.00
2. Australia and New Zealand Banking Group, Ltd	5,000,000.00	1	160,000.00
3. Bank of Adelaide	1,000,000.00	0	0
4. Bank of New South Wales	5,000,000.00	3	145,640.00
5. Chase N.B.A. Group, Ltd	5,000,000.00	1	294,010.00
6. Commercial Banking Co. of Sydney, Ltd	2,000,000.00	0	0
7. Commercial Continental, Ltd	1,000,000.00	0	0
8. Commonwealth Trading Bank of Australia	5,000,000.00	1	236,000.00
9. Darling & Co., Ltd	2,000,000.00	0	0
10. Euro-Pacific Finance Corp., Ltd	1,000,000.00	0	0
11. Industrial Acceptance Corp., Ltd	3,600,000.00	0	0
12. MBC International Ltd	500,000.00	0	0
13. National Bank of Australasia, Ltd	5,000,000.00	0	0
14. Partnership Pacific, Ltd	2,000,000.00	0	0
15. Patrick-intermarine (Australia), Ltd	500,000.00	0	0
16. Rural & Industries Bank of Western Australia	250,000.00	0	0
17. Tricontinental Corp., Ltd	2,000,000.00	3	257,036.00
China:			
1. Bank of Communications	8,000,000.00	73	7,857,507.89
2. Bank of Taiwan	5,000,000.00	0	0
3. Cathay Investment & Trust Co., Ltd	500,000.00	0	0
4. Central Trust of China	4,000,000.00	11	1,773,571.37
5. Chang Hwa Commercial Bank, Ltd	4,000,000.00	18	2,786,800.00
6. China Development Corp	5,000,000.00	27	3,484,138.34
7. China Investment & Trust Co., Ltd	2,000,000.00	9	804,230.00
8. City Bank of Taipei	2,000,000.00	0	0
9. Farmers Bank of China	1,500,000.00	1	63,404.00
10. First Commercial Bank of Taiwan	2,000,000.00	4	248,100.00
11. Hua Nan Commercial Bank, Ltd	2,000,000.00	5	696,785.71
12. International Commercial Bank of China	5,000,000.00	17	3,161,536.66
13. Taiwan Development & Trust Corp	900,000.00	0	0
14. Taiwan First Investment & Trust Co., Ltd	1,000,000.00	1	374,080.00

Cooperating institution	Amount of CFF	Number of export loans	Amount of loans (EIB portion)
Hong Kong:			
1. Asia Pacific Capital Corp., Ltd	$1,000,000.00	1	$301,500.00
2. Bank of Canton, Ltd	1,000,000.00	0	0
3. Chartered Bank	1,000,000.00	0	0
4. Chekiang First Bank, Ltd	1,000,000.00	0	0
5. Hang Seng Bank, Ltd	2,000,000.00	0	0
6. Hong Kong & Shanghai Banking Corp	2,000,000.00	0	0
7. Shanghai Commercial Bank, Ltd	1,000,000.00	0	0
8. Western International Capital, Ltd	1,000,000.00	0	0
9. Wing on Bank, Ltd	500,000.00	0	0
10. WMS Capital Corp., Ltd	1,000,000.00	0	0
Iran:			
1. Banque Etebarate Iran	2,500,000.00	1	36,000.00
2. Bank of Tehran (Capitalbank)	1,500,000.00	23	1,173,565.02
3. Bank Saderat Iran	7,500,000.00	45	4,978,608.67
4. Foreign Trade Bank of Iran	5,000,000.00	0	0
5. Industrial Credit Bank	5,000,000.00	5	1,000,562.67
6. Iranian's Bank	1,000,000.00	0	0
Israel:			
1. Bank Hapoalim B.M	7,000,000.00	14	2,965,624.00
2. Bank Lemelacha, Ltd	1,000,000.00	9	98,549.00
3. First International Bank of Israel, Ltd	1,000,000.00	1	94,500.00
4. Industrial Development Bank of Israel, Ltd	10,000,000.00	52	5,631,282.10
5. Israel Discount Bank, Ltd	2,250,000.00	2	109,845.00
6. Maritime Bank of Israel, Ltd	900,000.00	4	480,050.00
7. Otsar La'Taasiya, Ltd	10,000,000.00	15	3,531,992.50
8. United Mizrahi Bank, Ltd	1,500,000.00	0	0
Japan:			
1. Bank of Tokyo, Ltd	6,000,000.00	29	3,877,667.92
2. Dai-Ichi Kangyo Bank, Ltd	2,000,000.00	0	0
3. Fuji Bank, Ltd	5,000,000.00	3	184,220.90
4. Industrial Bank of Japan, Ltd	7,000,000.00	34	3,666,200.00
5. Private Investment Co. for Asia	450,000.00	0	0
6. Sanwa Bank, Ltd	1,500,000.00	0	0
7. Sumitomo Bank, Ltd	2,000,000.00	2	182,450.43
8. Taiyo Kobe Bank, Ltd	2,000,000.00	1	18,900.00
9. Tokai Bank, Ltd	2,000,000.00	0	0
Korea:			
1. Korea Exchange Bank	25,000,000.00	208	24,947,969.77
Lebanon:			
1. Banque du Credit Populaire	250,000.00	0	0
Malaysia:			
1. Chartered Bank	1,000,000.00	0	0
2. Malaysian Industrial Development Finance Berhad	3,000,000.00	1	113,194.35
3. United Malayan Banking Corp., Bhd	3,000,000.00	0	0
New Zealand:			
1. Bank of New South Wales	1,000,000.00	0	0
2. Bank of New Zealand	2,000,000.00	1	1,400,000.00
3. General Finance, Ltd	350,000.00	4	127,144.50
4. Marac Corp., Ltd	900,000.00	1	42,205.00
5. Marac International, Ltd	90,000.00	0	0
6. New Zealand United Corp., Ltd	100,000.00	1	29,873.39
7. N.Z.I. Finance Ltd	200,000.00	0	0
Pakistan:			
1. Pakistan Industrial Credit & Investment Corp	$5,000,000.00	0	0
Philippines:			
1. AEA Development Corp	500,000.00	0	0
2. Bancom Development Corp	1,000,000.00	1	45,000.00
3. Commercial Bank & Trust Co. of the Philippines	1,000,000.00	0	0
4. Consolidated Bank & Trust Corp	500,000.00	1	78,315.75
5. Far East Bank & Trust Co	450,000.00	0	0
6. General Bank & Trust Co	450,000.00	0	0
7. Manila Banking Corp	1,500,000.00	7	623,612.27
8. Pacific Banking Corp	1,000,000.00	0	0
9. Philippine Banking Corp	900,000.00	4	449,307.94
10. Philippine Veterans Bank	450,000.00	0	0
11. Private Development Corp. of the Philippines	2,500,000.00	0	0
12. Rizal Commercial Banking Corp	1,000,000.00	3	223,298.00
Singapore:			
1. Chartered Bank	1,000,000.00	0	0
2. Development Bank of Singapore, Ltd	5,000,000.00	0	0
3. Oversea-Chinese Banking Corp., Ltd	2,000,000.00	0	0
4. Overseas Union Bank, Ltd	1,000,000.00	2	446,400.84
5. United Overseas Bank, Ltd	2,000,000.00	0	0

Cooperating institution	Amount of CFF	Number of export loans	Amount of loans (EIB portion)
Thailand:			
1. Bangkok Bank Ltd	$5,000,000.00	66	$3,846,499.44
2. Bangkok First Investment & Trust, Ltd	450,000.00	0	0
3. Bangkok Metropolitan Bank, Ltd	2,500,000.00	0	0
4. Bank of Ayudhya, Ltd	3,000,000.00	0	0
5. First National City Development Finance Corp	900,000.00	0	0
6. Siam Commercial Bank, Ltd	1,000,000.00	0	0
7. Thai Danu Bank, Ltd	500,000.00	4	476,838.27
8. Thai Development Bank, Ltd	2,225,000.00	0	0
9. Thai Farmers Bank	1,000,000.00	9	967,880.00
10. Thai Military Bank, Ltd	500,000.00	1	18,090.00
11. Wang Lee Bank	500,000.00	3	33,885.00
Turkey:			
1. Anadolu Bankasi A.S	1,000,000.00	0	0
2. Sinai Yatirim Ve Kredi Bankasi A.O	2,000,000.00	0	0
3. Turkiye Halk Bankasi	1,000,000.00	0	0
Bahamas:			
1. Bank of New Providence, Ltd	1,000,000.00	0	0
Colombia:			
1. Banco de America Latina	100,000.00	0	0
2. Banco de Bogota	2,000,000.00	7	397,765.50
3. Banco Comercial Antioqueno	1,000,000.00	0	0
4. Banco de Construccion y Desarrollo	250,000.00	0	0
5. Corporacion Financiera Colombiana	1,000,000.00	0	0
Costa Rica:			
1. Banco Centroamericano de Divisas	500,000.00	0	0
2. Banco Credito Agricola de Cartago	1,000,000.00	12	905,816.29
3. Latin American Bank	1,450,000.00	20	939,267.26
Dominican Republic:			
1. Corporacion Financiera Asociada, S.A	250,000.00	0	0
Ecuador:			
1. COFIEC, S.A. Compania Financiera	500,000.00	8	192,278.15
El Salvador:			
1. Banco Cuscatlan	500,000.00	1	83,747.25
2. Financiera de Desarrollo e Inversion, S.A	500,000.00	11	392,921.11
Honduras:			
1. Banco Atlantida, S.A	2,500,000.00	8	618,387.60
2. Banco la Capitalizadora Hondurena, S.A	875,000.00	15	796,763.53
3. Banco de el Ahorro Hondureno	1,200,000.00	25	720,421.77
4. Banco Financiera Hondurena, S.A	1,350,000.00	37	1,034,409.45
5. Banco de Honduras	2,000,000.00	7	357,713.60
Jamaica:			
1. Jamaica Citizens Bank, Ltd	1,000,000.00	1	12,517.25
Mexico:			
1. Banco del Atlantico, S.A	2,000,000.00	5	71,197.52
2. Banco Comercial Mexicano, S.A	2,000,000.00	13	741,908.77
3. Banco de Industria y Comercio, S.A	1,000,000.00	0	0
4. Banco de Londres y Mexico, S.A	1,000,000.00	1	241,929.50
5. Banco Mercantil de Mexico, S.A	1,800,000.00	6	688,320.50
6. Banco Mexicano, S.A	1,000,000.00	0	0
7. Financiera Aceptaciones, S.A	4,000,000.00	18	2,292,955.84
8. Financiera Banamex, S.A	5,000,000.00	2	301,531.64
9. Nacional Financiera, S.A	25,000,000.00	33	5,498,212.84
10. Sociedad Mexicana de Credito Industrial, S.A	1,000,000.00	0	0
Panama:			
1. Banco Continental de Panama, S.A	500,000.00	0	0
2. Desarrollo Industrial, S.A	2,000,000.00	9	1,029,000.00
Peru:			
1. Banco de Credito del Peru	2,250,000.00	0	0
Trinidad and Tobago:			
1. Royal Bank of Trinidad & Tobago, Ltd	2,000,000.00	0	0
Venezuela:			
1. Banco de Desarrollo Agropecuario	1,500,000.00	2	579,184.20
2. Banco Nacional de Descuento	500,000.00	0	0
3. Sociedad Financiera Amerfin, C.A	500,000.00	0	0
4. Sociedad Financiera Matlock, C.A	500,000.00	0	0
Brazil:			
1. Banco Aurea de Investimento, S.A	1,960,749.00	8	894,434.20
2. Banco Auxiliar de Investimentos, S.A	1,000,000.00	13	927,452.28
3. Banco Aymore de Investimento, S.A	2,000,000.00	3	237,600.00
4. Banco da Bahia Investimentos, S.A	1,000,000.00	3	97,668.00
5. Banco Bamerindus de Investimento, S.A	2,500,000.00	12	1,001,103.46
6. Banco Bandeirantes de Investimento, S.A	1,000,000.00	6	999,999.90
7. Banco Bozano Simonsen de Investimento, S.A	3,693,516.65	23	1,687,866.07
8. Banco Bradesco de Investimento, S.A	3,019,663.14	79	2,557,357.19
9. Banco Brascan de Investimento, S.A	2,020,445.75	11	1,724,211.16
10. Banco do Brasil, S.A	50,294,460.95	32	2,150,614.00
11. Banco Brazileiro de Investimento Ipiranga, S.A	500,000.00	1	47,480.40
12. Banco Crefisul de Investimento, S.A	2,753,367.45	16	2,022,532.57
13. Banco Denasa de Investimento, S.A	3,933,675.60	9	2,667,570.46
14. Banco de Desenvolvimento do Espirito Santo, S.A	1,000,000.00	2	78,442.37
15. Banco de Desenvolvimento do Estado da Bahia, S.A	900,000.00	0	0

Cooperating institution	Amount of CFF	Number of export loans	Amount of loans (EIB portion)
Brazil—Continued			
16. Banco de Desenvolvimento do Estado de Sao Paulo, S.A	$9,539,812.50	41	$5,712,739.12
17. Banco de Desenvolvimento de Minas Gerais	2,500,000.00	14	1,241,248.00
18. Banco Economico de Investimento, S.A	1,000,000.00	5	975,317.39
19. Banco Finasa de Investimento, S.A	5,210,690.00	21	1,379,338.17
20. Banco Halles de Investimentos, S.A	4,000,000.00	8	1,608,971.21
21. Bansulvest—Banco de Investimento S.A	900,000.00	9	655,707.72
22. Banco Intercontinental de Investimento, S.A	500,000.00	3	305,483.27
23. Banco de Investimento America do Sul, S.A	250,000.00	0	0
24. Banco de Investimentos, BCN, S.A	3,451,818.00	32	2,549,659.85
25. Banco de Investimentos do Brasil, S.A	4,477,278.81	91	2,854,150.11
26. Banco de Investimento Copeg, S.A	2,000,000.00	2	997,290.77
27. Banco de Investimento Credibanco, S.A	932,531.50	8	834,818.29
28. Banco de Investimento Lar Brasileiro, S.A	750,000.00	0	0
29. Banco de Investimento Nacional do Comercio, S.A	2,000,000.00	0	0
30. Banco Uniao de Investimento, S.A	3,985,512.18	44	2,919,611.96
31. Banco Itau Portugues de Investimento, S.A	3,725,937.67	52	1,895,636.39
32. Banco Nacional Brasileiro e Metropolitano de Investimentos, S.A	1,499,627.38	9	1,346,572.88
33. Banco Nacional de Investimentos, S.A	5,000,000.00	6	114,143.47
34. Banco Real de Investimento, S.A	9,211,961.98	186	9,051,311.62
35. BRDE-Banco Regional de Desenvolvimento do Extremo Sul	2,499,999.99	8	481,608.58
36. Banco Safra de Investimento, S.A	3,500,000.00	38	3,474,090.00
37. Banorte Banco de Investimento, S.A	500,000.00	0	0
38. BMG-Banco de Investimento, S.A	3,570,723.07	32	2,885,501.01
39. Comind-Banco de Investimento Comercio e Industria, S.A	1,923,850.00	50	1,870,601.14
Austria:			
1. Bank Fur Oberosterreich und Salzburg	2,000,000.00	0	0
2. Bankhaus Deak & Co. Ltd	1,000,000.00	0	0
3. Creditanstalt-Bankverein	2,500,000.00	0	0
4. Girozentrale und Bank der Osterreichischen Sparkassen A.G	1,000,000.00	0	0
5. Osterreichische Kommerzialbank A.G	1,000,000.00	0	0
Belgium:			
1. Banque du Benelux	2,500,000.00	0	0
2. Banque de Bruxelles	5,000,000.00	1	103,560.00
3. Banque de Commerce S.A	2,500,000.00	0	0
4. Interbank Aktiengesellshaft	500,000.00	0	0
5. Kredietbank N.V	5,000,000.00	0	0
6. Societe Generale de Banque	5,000,000.00	0	0
Denmark:			
1. Den Danske Landmandsbank Sktieselskab	4,500,000.00	1	129,600.00
2. Den Danske Provinsbank A/S	900,000.00	0	0
3. Faellesbanken for Danmarks Sparekasser A/S	1,000,000.00	0	0
4. Kjobenhavns Handelsbank	2,000,000.00	2	83,440.50
5. Privatbanken A/S	2,000,000.00	0	0
Finland:			
1. Helsingin Osakepankki Helsingfors Aktiebank	1,000,000.00	1	235,730.00
2. Kansallis-Osake-Pankki	5,000,000.00	0	0
3. Nordiska Foreningsbaken A.B	3,000,000.00	0	0
France:			
1. Banque Internationale Pour L'Afrique Occidentale (BIAO)	4,500,000.00	0	0
2. Banque Nationale de Paris	4,500,000.00	2	110,538.19
3. Banque Francaise du Commerce Exterieur	5,000,000.00	3	1,144,390.00
4. Banque de l'Indochine	8,000,000.00	1	178,000.00
5. Banque de L'Union Parisienne	3,000,000.00	0	0
6. Banque de Paris et Des Pays-Bas	10,000,000.00	8	6,899,433.74
7. Banque de Suez et De L'Union des Mines	5,000,000.00	0	0
8. Credit Commercial de France	10,000,000.00	0	0
9. Credit Industriel et Commercial	10,000,000.00	3	217,588.04
10. Credit Lyonnais	10,000,000.00	2	92,765.04
11. Credit du Nord	10,000,000.00	1	9,492.00
12. Manufacturers Hanover Banque Nordique	10,000,000.00	2	783,000.00
13. Societe Generale	10,000,000.00	4	704,762.71
14. Union de Banques Arabes et Francaises	3,000,000.00	0	0
Germany:			
1. Bank Fuer Gemeinwirtschaft Aktiengesellschaft	5,000,000.00	0	0
2. Bayerische Vereinsbank	10,000,000.00	2	94,039.92
3. Berliner Handels-Gesellschaft Frankfurter Bank	2,000,000.00	0	0
4. Deutsche Bank Aktiengesellschaft	10,000,000.00	0	0
5. Dresdner Bank	10,000,000.00	0	0
6. Westdeutsche Landesbank Girozentrale	2,000,000.00	1	63,017.00
Greece:			
1. Credit Bank	500,000.00	2	259,072.00
Iceland:			
1. Landesbanki Islands	1,000,000.00	0	0
Ireland:			
1. Allied Irish Investment Bank, Ltd	5,000,000.00	0	0
2. Bank of Ireland	5,000,000.00	0	0
3. Chase and Bank of Ireland (International), Ltd	2,250,000.00	0	0
4. Industrial Credit Co., Ltd	1,000,000.00	0	0
Italy:			
1. Instituto Mobilare Italiano	10,000,000.00	3	789,250.00

Cooperating institution	Amount of CFF	Number of export loans	Amount of loans (EIB portion)
Luxembourg:			
1. Banque du Benelux-La Luxembourgeoise	$1,000,000 00	0	0
2. Banque Generale du Luxembourg, S.A	2,000,000.00	0	0
3. Banque Internationale A Luxembourg	2,000,000.00	0	0
4. Kredietbank, S.A	5,000,000.00	0	0
Netherlands:			
1. Algemene Bank Nederland N.V	10,000,000.00	0	0
2. Bank Mees and Hope N.V	3,000,000.00	0	0
3. Banque de Paris et Des Pays-Bas, N.V	3,000,000.00	0	0
4. National Bank Voor Middelland Krediet N.V	5,000,000.00	0	0
5. Nederlandsche Credietbank, N.V	2,500,000.00	0	0
6. Nederlandsche Middenstandsbank, N.V	3,000,000.00	0	0
7. Pierson, Heldering & Pierson	3,000,000.00	0	0
8. N.V. Slavensburg's Bank	2,500,000.00	2	$1,640,250.00
Norway:			
1. Andresens Bank A/S	5,000,000.00	0	0
2. Bergens Privatbank	1,000,000.00	0	0
3. Den Norske Creditbank	5,000,000.00	0	0
Portugal:			
1. Banco Borges & Irmao	3,000,000.00	2	283,608.35
2. Banco Espirito Santo e Comercial de Lisboa	5,000,000.00	3	466,953.40
3. Banco Pinto & Sotto Mayor	10,000,000.00	0	0
4. Banco Portugues do Atlantico	5,000,000.00	0	0
5. Sociedade Financeira Portuguesa	7,500,000.00	1	52,514.28
Scotland:			
1. Royal Bank of Scotland, Ltd	675,000.00	0	0
Spain:			
1. Banco Atlantico	4,000,000.00	10	2,265,125.40
2. Banco de Bilbao	3,000,000.00	0	0
3. Banco Catalana	1,000,000.00	9	215,253.00
4. Banco Central, S.A	4,000,000.00	0	0
5. Banco Commercial Para America	1,000,000.00	2	52,414.50
6. Banco March, S.A	2,000,000.00	0	0
7. Banco Condal	1,000,000.00	1	132,611.85
8. Banco Espanol de Credito	1,000,000.00	1	514,917.00
9. Banco Industrial de Cataluna	500,000.00	0	0
10. Banco International de Comercio	1,125,000.00	2	212,844.96
11. Banco de Santander	2,000,000.00	0	0
Sweden:			
1. Svenska Handelsbanken	5,000,000.00	0	0
Switzerland:			
1. Bankinvest-Bank for Investment & Credit, Ltd	1,000,000.00	0	0
2. Banque de Financement S.A	1,000,000.00	0	0
3. Dow Banking Corp	10,000,000.00	0	0
4. Handelsfinanz, A. G	5,000,000.00	0	0
United Kingdom:			
1. Atlantic International Bank, Ltd	1,000,000.00	0	0
2. Barclays Bank D.C.O	10,000,000.00	0	0
3. Wm. Brandt's Sons & Co., Ltd	5,000,000.00	10	987,153.85
4. Edward Bates & Sons, Ltd	1,350,000.00	1	67,527.00
5. Citicorp International Bank, Ltd	5,000,000.00	1	422,840.25
6. Kleinwort, Benson, Ltd	2,500,000.00	0	0
7. Lloyds & Bolsa International Bank, Ltd	5,000,000.00	1	331,740.00
8. London Branch of the First Pennsylvania Banking & Trust Co	5,000,000.00	0	0
9. London Interstate Bank, Ltd	2,000,000.00	0	0
10. Midland Bank, Ltd	10,000,000.00	0	0
11. Midland & International Banks, Ltd	5,000,000.00	0	0
12. Morgan Grenfell & Co., Ltd	3,000,000.00	0	0
13. National Westminister Bank, Ltd	5,000,000.00	0	0
14. Scandinavian Bank, Ltd	5,000,000.00	0	0
15. J. Henry Schroder Wagg & Co., Ltd	5,000,000.00	0	0
16. United International Bank, Ltd	2,000,000.00	0	0
17. Western American Bank (Europe) Ltd	5,000,000.00	0	0
18. Williams & Glyn's Bank, Ltd	5,000,000.00	0	0
Yugoslavia:			
1. Beogradska Banka	2,000,000.00	0	0
2. Jugoslavenska Banka	18,265,000.00	83	12,080,642.57
3. Investiciona Banka, Titograd	1,500,000.00	0	0
4. Ljubljanskabanka	5,000,000.00	5	1,066,728,37
5. Stopanska Banka Skopje	2,250,000.00	1	404,689.50
Canada:			
1. Bank of British Colombia	3,000,000.00	0	0
2. Bank of Montreal	10,000,000.00	1	536,776.00
3. Bank of Nova Scotia	10,000,000.00	5	642,731.00
4. Canadian Imperial Bank of Commerce	5,000,000.00	0	0
5. Royal Bank of Canada	10,000,000.00	0	0
6. Toronto-Dominion Bank	5,000,000.00	1	855,000.00

Cooperating institution	Amount of CFF	Number of export loans	Amount of loans (EIB portion)
World wide:			
1. American Express International Banking Corp	$25,000,000.00	3	$1,302,117.76
2. American Fletcher National Bank & Trust Co	3,000,000.00	1	138,368.50
3. Bank of America N.T. & S.A	25,000,000.00	29	5,974,039.06
4. Bank of Boston International	2,000,000.00	0	0
5. Bank of California	4,500,000.00	0	0
6. Central National Bank of Cleveland	5,000,000.00	0	0
7. Chase Manhatten Bank	30,000,000.00	6	1,276,322.40
8. Chemical Bank	25,000,000.00	0	0
9. Citizens & Southern National Bank	5,000,000.00	0	0
10. Cleveland Trust Co	3,000,000.00	0	0
11. Connecticut Bank & Trust Co	1,000,000.00	3	393,950.00
12. Continental Illinois National Bank & Trust Co. of Chicago	25,000,000.00	0	0
13. Crocker National Bank	10,000,000.00	0	0
14. Exchange National Bank of Chicago	2,250,000.00	0	0
15. Fidelity Bank	1,000,000.00	0	0
16. First National Bank of Boston	10,000,000.00	1	357,750.00
17. First National Bank of Chicago	10,000,000.00	1	78,374.50
18. First National Bank of Louisville	3,000,000.00	0	0
19. First National Bank of Memphis	5,000,000.00	0	0
20. First National City Bank	30,000,000.00	6	2,700,264.73
21. First New Haven National Bank	1,000,000.00	0	0
22. Franklin National Bank	5,000,000.00	0	0
23. Hartford National Bank & Trust Co	2,500,000.00	0	0
24. Industrial National Bank of Rhode Island	1,000,000.00	1	200,000.00
25. Marine Midland Bank	10,000,000.00	6	623,266.39
26. Mellon National Bank & Trust Co	15,000,000.00	2	463,500.00
27. Mitsubishi International Corp	1,000,000.00	2	229,612.50
28. Mitsui & Co., (U.S.A.), Inc	2,000,000.00	2	147,312.08
29. Morgan Guaranty Trust Co. of New York	25,000,000.00	19	7,113,575.00
30. Northwestern National Bank of Minneapolis	2,250,000.00	5	978,750.00
31. Pan American Development Foundation (PADF)	125,000.00	0	0
32. Philadelphia National Bank	15,000,000.00	6	2,004,750.00
33. Pittsburgh National Bank	15,000,000.00	1	202,500.00
34. Seattle First National Bank	1,000,000.00	0	0
35. Security Pacific National Bank	10,000,000.00	1	283,642.50
36. Society National Bank of Cleveland	2,000,000.00	0	0
37. Toyomenka (America), Inc	2,000,000.00	0	0
38. Union Commerce Bank	4,500,000.00	0	0
39. Equibank (Western Pennsylvania National Bank)	10,000,000.00	5	1,410,750.00
40. Winters National Bank & Trust Co	1,000,000.00	0	0

Question 5. In testimony before the Subcommittee, a Member of Congress indicated that consideration should be given to the possibility of a ceiling being set on the total amount of money that can be loaned to any one country by Ex-Im Bank. Please comment.

Answer. Your fifth question indicates that a member of Congress recommended consideration of placing a ceiling on the total amount of money that can be loaned to any one country by Eximbank.

In the first instance, experience shows that ceilings very soon tend to become targets. Official export financial support agencies in other countries have found that it is more difficult to be discriminating and to deny applications so long as the ceiling has not been reached. Then, when the ceiling is reached, after collecting a portfolio of credits which includes a considerable number of higher risk cases, it may become necessary to deny a particularly creditworthy case because the ceiling has been reached.

Second, Eximbank has found it preferable to adopt a case-by-case approach, analyzing the merits of each application—including country risk—to determine whether Eximbank should participate in accordance with the guidelines in its legislative charter. A key criterion is determining "reasonable assurance of repayment" while pursuing the prime objective of facilitating financing "to foster expansion of U.S. exports." Without a ceiling Eximbank is not faced with withholding financing for creditworthy transactions and thus denying potential exports, yet, it is able to make a decision based upon current economic and financial data.

Third, limiting the amount of lending Eximbank may be able to do in a given market will force it to be uncompetitive with other export financing agencies which do not have any such limit.

A further difficulty lies in the question of how to determine what any country ceiling should be. Should it be a set dollar amount or floating according to some determinant, such as the amount of external debt of the borrower(s) country, or the amount of such debt owing to the United States and its nationals, or the percentage of current account receipts required to service public external debt, or the percentage required to service debt owed Eximbank? Some high risk countries have no external debt, and some creditworthy countries have a substantial external debt burden.

Historically Eximbank has found it more appropriate to adjust its exposure in more difficult markets through adjustable features in its credit programs which can discourage applications to those higher risk markets. For example, increasing cash payment or supplier participation of credit risk can effectively reduce not only Eximbank's exposure, but also the amount of U.S. purchases by buyers in that market.

In summation, while maintaining its standards of reasonable assurance of repayment by denying its support to transactions where in Eximbank's view the "country" risk was excessive, Eximbank has sought also to maintain programs which facilitate expansion of U.S. exports by offering financing support to U.S. exporters which is competitive with the governmental support received by foreign exporters.

Mr. ASHLEY. I would rather use the remaining time to explore further questions from other members of the subcommittee. Do you have anything, Mr. Brown?

Mr. BROWN. I have a statement more than a question, Mr. Chairman.

Mr. Casey, I appreciate your being here this morning. I think that Mr. Hanna pretty well summarized my thoughts. I think your biggest problem is to get the American electorate to understand the value of the legislation and the ultimate value to them of the direct benefit derived by recipients of Export-Import Bank financing and guarantees.

It is awfully hard, for instance, when a nation buys things from us, whether it be wheat or whatever it might be, to the same extent that we might buy natural gas from Russia or get fertilizer from Russia, to get people to see that we are no more establishing a dependency upon them for the things we receive from them than they are becoming dependent upon us.

But, for some reason, the American electorate does not see other nations establishing dependency on us when we export our goods. They see it as a bad transaction, both ways. They see it bad when we are engaged in importation of goods, because we are becoming dependent, and when we sell goods, they find that we are exporting things that we need here, and that is bad. So I think you are getting a public reaction that sees the worst of both situations and never the value of it.

Now, Caterpillar Tractor, I know, did put out a presentation. This must have been a couple of years ago. It was probably the best presentation I have seen. They show it to their employees and everybody else, to show what their export business does for that worker in that American firm, and what its public benefit is.

It seems to me that in a lot of these areas—whether it be Export-Import Bank financing, whether it be exportation of agricultural products, no matter what it is—that somewhere along the line we have got to get a better, a more understandable message across regarding the value of these transactions and this activity to the average American citizen.

We are not doing it and so long as we do not, you are going to continue to have problems in the legislative halls.

Mr. CASEY. Well I entirely agree with you, Mr. Brown.

Mr. BROWN. I think that when we have transactions such as the wheat transaction, and when you can single out where Eximbank maybe did not do the kind of completely adequate examination of a particular transaction or explain away other transactions, such as Mr. Blackburn suggested this morning, that those isolated incidents are going to be looked upon by the American public as to the rule not the exception.

Mr. CASEY. Yes. Of course the basic problem is that you cannot do one without the other. You cannot export without importing and you cannot import without exporting.

Mr. BROWN. Very true, but I think that you recognize that the American electorate wants the best of both worlds.

Once again, I appreciate very much your being with us here today.

Mr. ASHLEY. Mr. McKinney?

Mr. BROWN. Would you yield?

Mr. Casey, if I may, I also think we should point out that it was Mr. Ashley and my activity in the Export Administration Act, pretty much, that expanded the basic policy under what was formerly the Export Control Act, of saying that the strategicness, if I may use the term, of a commodity or a technology or no matter what it might be, is not based upon an examination of that item or commodity, or that technology itself, but rather the particular strategicness of that product must be determined in relation to its availability elsewhere within the free world because an item may be of great strategic importance viewed in a vacuum, but if it is readily available elsewhere in the free world, then its export is of less or no significance from a "strategy" standpoint.

You might also recognize that it was about 2 years ago that Mr. Ashley and I were jumping all over your predecessors because we felt the Bank was not being competitive in the financial markets of the world, as compared with the Japanese and the Germans and everybody else, so we said you have got to start becoming more competitive, and that is why the language in your legislation somewhat has changed. So you are going to find yourself, constantly in the crossfire of different congressional directives as political circumstances necessitate.

Mr. CASEY. It is not the most unpleasant thing in the world. I kind of like it.

Mr. ASHLEY. I am interested in your discussion with respect to your competitiveness, that to some extent, perhaps, the mandate which we wrote into the law in 1971 has not really been fulfilled to the extent that we might expect. Congress now takes a very sanguine view of your failure to do so, the fact that you may be charging more, that your terms may be a little bit more onerous, a little stricter than other countries.

It is strange what can happen in a period of 12 or 18 months. I say that because we were applauded, just a very short time ago when we did come to the floor of the Congress with a mandate that the Bank could offer terms to facilitate the export sales of the American manu-

facturers, that we insisted be competitive, and now what some want in many respects, as I gather it, is to be somewhat less competitive. I think that by and large what we are looking for is competitiveness.

Mr. CASEY. Well, the dollar took a dive yesterday. That will put their eye on us again.

Mr. ASHLEY. Mr. McKinney?

Mr. McKINNEY. Thank you, Mr. Chairman.

I am just looking for some method we can get this bill through the floor of the House with.

When you review loan applications, Mr. Casey, do you take into consideration a country's history of expropriation or a foreign nation's use of such economic weapons as boycotting?

To my constituents the term "export" is equated with a shortage of ferrous steel, a shortage of salmon, a shortage of wheat, a shortage of soybeans. That is what exports mean to them.

Second, they look at international trade, and they see the oil boycott by the Arab nations. Then they read where the Federal Government is paying American corporations for properties that were expropriated by foreign nations, and then they pick up the paper and see where one Government agency is loaning money to export; another is covering losses due to expropriation, and a third agency turns around and finances business deals in the very nations which have boycotted us and expropriated American property.

I have talked to some gentlemen from our oil wealthy nations who have said very flatly that they will not invest in large quantities in the United States until the Congress gives them a guarantee against expropriation. They demand such a guarantee of the United States at the very time that they are contemplating expropriating some of our very biggest refining complexes. Such a situation concerns me and in that context I raise the question about the use of your Bank as an element of foreign policy.

For foreign policy purposes we may say that we want to have a rapprochement with the Arab nations, but granting banking loans to those nations is destroying the public faith in the Eximbank and endangering its very existence.

Mr. CASEY. Well, I think you have raised a lot of very complicated questions. That just points to the complexity of the world and the international economy.

You look at the American exporter. We think we are financing him. He is going into a market where he can do business. We look at that market and that customer in terms of whether we are going to get our money back, that is, is he creditworthy.

Now, if that country has expropriated, that is only one of the issues to be evaluated, as we look at it in terms of our mandate, our obligation and the statutory requirements. That is a factor that reflects on creditworthiness. If we think we are going to get paid, even if they do expropriate, their credit is good. We are not going to get too concerned about that.

In fact, if we do make that a determining factor, we are criticized for that, too. We have been criticized for not making loans in countries which have expropriated. If we are expected to meet all of the foreign policy requirements that anybody may have, I think our job becomes

an impossible one. So we try to stick to the primary purpose in our statutory mandate, which is the financing of the exports for the benefit of the exporter and the domestic economy. We have to keep our eye on that objective. All of these other things ought to be handled by the State Department or whoever else is responsible for overall U.S. policy guidance.

Mr. McKinney. Thank you very much.

Mr. Ashley. Mr. Frenzel?

Mr. Frenzel. Thank you, Mr. Chairman.

I take it from your statements of your independence, an allegation made here last week that the White House has to certify each of your loans over $10 million is inaccurate?

Mr. Casey. Yes, it is inaccurate.

Let me just say that each of our transactions in which the Eximbank liability is over $30 million is brought to the National Advisory Council, which I have described earlier, for clearance. That body consists of the Secretary of State, the Secretary of the Treasury the Secretary of Commerce, the Chairman of the Federal Reserve, and the President of the Export-Import Bank. It was created by the Congress for the purpose of coordinating the external financial transactions of the United States. Those transactions over $30 million are looked at there to see whether they fit the general pattern of our financial transactions and conform to U.S. policy.

Mr. Frenzel. Thank you for that observation.

Mr. Ashley. Would the gentleman yield at this point?

Mr. Frenzel. I do.

Mr. Ashley. About what percentage of the loans would that be on an annual basis?

Mr. Casey. Very small. We have 8,000 loans on an annual basis. I would not—well, 15 percent of our loan transactions, but that only comes down to less than 1 percent of our total transactions.

Mr. Ashley. In dollar volume what would it be?

Mr. Casey. In dollar volume it would be higher, because those are the big loans. I will get that for the record.

Mr. Ashley. Yes. What I want to know is, what percent of the transactions in number and in dollar volume are subject to the NAC review?

[In response to the request of Chairman Ashley, the following information was submitted for the record by Mr. Casey:]

Reply Received From Mr. Casey

During fiscal year 1973, 52 loans totaling $1,512 million, related financial guarantees, totaling $1.022 million on private source financing, were referred to the National Advisory Council on International Monetary and Financial Policies (NAC). In terms of percentages, 18 percent of the number of Participating Financing loans, comprising about 65 percent of the total amount of Participation Financing loans authorized, and about 1 percent of all loan, guarantee and insurance authorizations, comprising 36 percent of the total dollar amount authorized, were submitted to the NAC.

Mr. Frenzel. Thank you.

I got the impression a lot of us, including your ex-employees, do not understand how the Bank operates.

Does the Eximbank compete with private capital or does it try to augment private financing?

Mr. Casey. It tries very hard to augment and facilitate the financing provided by private capital. We do that by restricting our participation in direct loans to 45 percent. There generally has got to be 45 percent of private capital to come along with us. The greatest number of our transactions, however, take the form of insuring and guaranteeing private loans.

Mr. Frenzel. You know, we have gotten kind of hung up on this topic of export of jobs. I do not think we have talked enough about the three-quarters of a million jobs you referred to in your testimony which are created or sustained by our export activities. It seems to me that that is not a question of a tradeoff. There is an enormous plus of jobs created in this country by our export activities, which are in turn stimulated by your financing capabilities. Were we to let the Export-Import Bank Act expire, it seems that the effect of job losses on our economy would be devastating, and I would like you to comment on that.

Mr. Casey. I think it would very clearly be devastating. It would be devastating in terms of our business, in terms of the level of economic activity, in terms of jobs, in terms of our balance of payments, and in terms of the value of our money. I would think our exports would fall. A lot of people out there in the world are able to finance exports and would take deals away from our exporters, and thereby increase their trade. Ours would diminish.

I think it would be a very serious attrition. It would have an immediate effect which would not be quite as sharp or significant as the attrition of our role and our position in the world markets would be over the long haul. We would reverse the buildup of our posture in the world markets that has been accomplished over a long period of time.

Mr. Frenzel. I thank you very much, Mr. Casey.

Mr. Chairman, I yield.

Mr. Ashley We have a slight problem, of course, which is that the House is now in session and we will be called for a quorum call at any moment. I had expected or hoped, at least, that we would have an opportunity to hear and to examine the Honorable Jack F. Bennett, Under Secretary of the Treasury.

Mr. Bennett, do you have a prepared statement?

Mr. Bennett. Yes, sir.

Mr. Ashley. Well, with the consent of the subcommittee, I think that we will have your statement inserted at the appropriate point in the record, which we will have an opportunity to review and we will question you later, probably in writing, if that meets with your approval, sir.

Mr. Benne t. Yes, sir.

[The prepared statement of Mr. Bennett follows:]

Prepared Statement of Hon. Jack F. Bennett, Under Secretary of the Treasury

Mr. Chairman, Secretary Shultz and Secretary-Designate Simon have asked me to make clear the Treasury's support of the legislative proposals you have before your committee to continue, with amendment, three important programs

designed to insure that our nation derives the maximum benefit from its participation in international economic activities. Since I believe you already have extensive statements from the principal prospective administrators under each of these pieces of legislation—that is Secretary Dent under the Export Administration Act, Chairman Casey for the Export-Import Bank, and Peter Flanigan for the Council of International Economic Policy—it would probably be most helpful for me to limit myself for the most part to attempting to answer any questions you may have about the proposals. But in view of the fact that your committee is concentrating on the Ex-Im Bank today I would like to start by commenting on several aspects of the Bank's operations as seen from the Treasury.

In the next few years it is likely that the major developed countries will be competing vigorously in developing their export business in order to earn the funds to meet their larger import bills, particularly those for oil. In those circumstances we shall need an Ex-Im Bank capable of insuring that U.S. producers for export are not shouldered out of the market by foreign competitors supported by governmental credit assistance. The proposed legislation can serve to reduce that danger in two ways: by authorizing the Bank to extend assistance competitive with that actually being offered by foreign governments; and by placing the Bank and the Treasury in a convincing position to explain to other governments that any attempt by them at extreme credit subsidization will be self-defeating, since the Bank will be empowered—and directed—to meet that competition.

In fact the other major governments do recognize the dangers of a credit race, and we have discussions under way now to work out practical arrangements not only to prevent such a costly competition from developing but also to bring some current features of governmental credit assistance less out of line with world-wide financial market conditions.

In this connection you may have read in the papers recently of proposals put forward by officials of the European Community in Brussels to limit the maximum maturity of government-supported export credit to 5 years for most developed countries, to 8½ years for the USSR and Eastern European countries and to 10 years for the developing countries. In the U.S. Administration we have welcomed the evident European interest in avoiding undue liberality in government credit assistance; and we recognize that repayment terms as well as the interest rate and amount of such assistance are all relevant. But we have made clear to the Europeans our fundamental rejection of any approach which would involve offering the Soviet Union—or any other developed country—terms more favorable than those offered at other nations. The present total of $289 million of final loans granted on exports to the Soviet Union is small, only 1.7% of the Bank's outstanding total of final loan and guaranty commitments. But they have been good business for the United States, not foreign aid. I can see no reasons for any discrimination in favor of exports to the Soviet Union; nor in present circumstances do I believe there is any wisdom in proposals to discriminate against those American firms and communities which are trying to gain a fair share of the business being generated by the Soviet Union's increasing imports of non-strategic items from the West.

Mr. Chairman, I would be happy to attempt to comment further on any other aspects of the Bank's activities in which you would be interested.

Thank you.

Mr. Ashley. Mr. Casey, I think that this has been a very helpful occasion for the members of the subcommittee. We have looked forward to meeting you and having the opportunity to discuss with you and to examine with you areas of difficulty which I think have been made clear. I hope that this has been useful to you, sir, because if anything should become clear it is that these difficulties are serious in the minds of the members of this panel and they are serious among our colleagues in the House, to whom we are responsible and to whom we will be referring legislation.

I would like to close on a note in which I ask for your continued help, sir. I frankly foresee a difficult road for this legislation and for other legislation that this subcommittee will be reporting in the early

days ahead. We need better understanding among the membership of the House of the role of your institution and how the Bank is addressing itself to the particular problem areas that have been graphically described by Mr. Blackburn and others. Absent such help, I have a real concern with respect to the kind of legislation that I personally would like to see adopted by the Congress.

I can foresee a difference from 3 years ago when there was very considerable worry where our balance of trade and our balance of payments. At that time the House did respond in a way that I think was constructive. We do live in a very rapidly changing world. It is not entirely of our making, to say the least.

The attitudes that are current today reflect events of recent months, and we would be ill advised, all of us, to think that those attitudes are not going to be represented to some extent in the legislation that we are considering. So I echo the statement of Mr. Brown. Unless there is developed very promptly to the greatest extent possible the kind of real understanding of what is involved in our trade policy, the necessity for increasing our participation in world trade, the consequences, as you know and as I know, are going to be very, very serious.

Mr. McKinney. Mr. Chairman.

Mr. Ashley. Mr. McKinney.

Mr. McKinney. I would just like to reiterate that which I think I have been doing all morning. But I really feel that you, Mr. Casey, should get together with our chairman and with other members of this subcommittee who are as interested in export as we are. We are going to have to have the ammunition, and I mean more ammunition than you have ever had for any loan approval in the history of the Bank. We are going to need to know jobs, dollars, exports, favorable trade balances, and everything else.

It is almost ludicrous for Mr. Frenzel—excuse me—to say that the best news that has happened to you in the Eximbank is that we have a trade deficit this month.

Mr. Ashley. On that happy note, the subcommittee will stand in recess until 10 o'clock tomorrow morning.

[Whereupon, at 12:15 p.m., the subcommittee was adjourned, to reconvene at 10 a.m. on Wednesday, May 1, 1974.]

INTERNATIONAL ECONOMIC POLICY

WEDNESDAY, MAY 1, 1974

House of Representatives,
Subcommittee on International Trade
of the Committee on Banking and Currency,
Washington, D.C.

The subcommittee met at 10:15 a.m., pursuant to notice, in room 2128, Rayburn House Office Building, Hon. Thomas L. Ashley (chairman of the subcommittee), presiding.

Present: Representatives Ashley, Young, Blackburn, McKinney, Frenzel.

Mr. Ashley. The subcommittee will come to order.

The hearings on pending international economic policy legislation continue this morning with testimony from administration witnesses representing the Departments of Commerce, Defense, and Agriculture. Oral testimony will be taken from each of the witnesses and each of them will be available for questioning by members of the subcommittee.

The prepared statement of the witnesses will be included at the appropriate point in the record of the hearings.

Our first witness this morning is the Honorable Frederick B. Dent, Secretary of Commerce.

Mr. Secretary, we are pleased to welcome you to the subcommittee, and you will proceed with your statement, sir.

Secretary Dent. Thank you very much, Mr. Chairman.

Mr. Ashley. Mr. Secretary, you may proceed as you wish. I do note that your statement is 42 pages long. Would it be your intention to insert the full statement in the record and to give us a somewhat shorter version?

Secretary Dent. Yes, sir, it would be, if that is agreeable with you.

Mr. Ashley. Please.

STATEMENT OF HON. FREDERICK B. DENT, SECRETARY OF COMMERCE

Secretary Dent. Mr. Chairman, I welcome this opportunity to appear on behalf of the Department of Commerce in support of H.R. 13840, a bill which extends the authority for the regulation of U.S. exports under the Export Administration Act of 1969, as amended, for 3 years from June 30, 1974, to June 30, 1977, and which amends the act in certain other respects. I will also comment briefly on H.R. 13838, a bill to amend and extend the Export-Import Bank of 1945,

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as amended, and on H.R. 13839, a bill to authorize appropriations to implement the International Economic Policy Act of 1972. First, I should like to discuss the need for an extension of the Export Administration Act and summarize the Department's administration of the act, since the act was extended in 1972.

The Export Administration Act presently authorizes the imposition of restrictions on exports to the extent necessary to carry out three basic purposes: national security, foreign policy, and protecting the domestic economy from shortages. Continuation of this statutory authority to control exports is needed for the following reasons:

First, we still need to control exports of commodities and technical data in the interest of United States and free world security. Even though there has been significant progress toward improving relationships with the Soviet Union, Eastern Europe, and the People's Republic of China, the time has not arrived when we can permit all countries to have uncontrolled access to the small portion of our national product that is strategically oriented. Also, the United States continues to cooperate with 14 other free world countries participating in the international strategic control system, COCOM, in controlling certain commodities and advanced technologies which all of the COCOM countries agree have a significant strategic potential. Statutory authority to control exports is essential to continued U.S. participation in this international effort.

Second, we must continue to carry out certain export control programs which further the U.S. policy as well as U.S. national security. We prohibit virtually all exports to North Vietnam, North Korea, and Cuba pursuant to the foreign policy authority of the act. This authority is also used to implement the U.N. resolution calling for an embargo on trade with Southern Rhodesia and on shipments of arms to South Africa and the Portuguese African territories. Under the foreign policy authority, we have excluded exports of paramilitary items to certain Middle East countries. Finally, this authority enables the Government to control exports of commodities and technologies for use in the development and testing of nuclear weapons in support of the Limited Nuclear Test Ban Treaty and the nuclear nonproliferation policy of the United States.

Third, and of increasing importance to the national economy, the act provides necessary authority to control exports of commodities in short supply. Critical commodity shortages are a matter of concern to all of us. While export controls should be established only when demonstrably necessary, the authority to restrict exports to mitigate such scarcities and to preserve adequate supplies for our domestic economy is indispensable. For example, foreign demand for ferrous scrap would result in more than twice the level of exports currently authorized under our export controls. These controls will terminate on June 30, unless the act is extended.

The Equal Export Opportunity Act, which was enacted August 29, 1972, amended the Export Administration Act of 1969 to require the Secretary of Commerce, in cooperation with other appropriate Government agencies and technical advisory committees, to conduct a review, one, of commodity and technical data under U.S. unilateral control and, two, of export licensing procedures that were, or were claimed

to be, more burdensome than those imposed by our COCOM partners. In addition, the 1972 amendments provided for the establishment of technical advisory committees to advise the Government on exports of commodities and technical data which are subject to controls because of their significance to the national security.

The amendment required the Secretary of Commerce to report, within 9 months after enactment, on actions taken as a result of the review of the unilateral control and of the burdensome licensing procedures imposed by the United States. The Department's Special Report to the President and the Congress, dated May 29, 1973, met this requirement.

The report indicated that the number of commodity categories under unilateral control had been reduced from 550 to 73, including 30 commodity categories which as of the reporting date were held under interim control pending further review of the resolution of interagency differences.

As a result of the Department's continuing review program, the commodities remaining under the Department of Commerce license control for national security reasons are, with relatively few exceptions, internationally controlled through the COCOM structure. These commodities are, in large measure, high technology products, heavily weighted in the electronics area. Prominent examples are computers, highly sophisticated numerically controlled machine tools, certain videotape recorders, the more advanced types of oscilloscopes, and telecommunications equipment. Because most of these products have both peaceful and strategic uses, there is no hard and fast embargo by any of the COCOM countries, including the United States. Such exports, however, must be carefully scrutinized, on a case-by-case basis, to quote the language of the act, "from the standpoint of their significance to the national security of the United States." The other COCOM countries scrutinize their exports on a similar basis, and there is an international consultative procedure that must be followed before most such transactions can be approved.

With regard to our review of burdensome procedures, the May 29 report indicated that the Department, after consultations with other appropriate agencies, decided to retain or modify certain procedures and to defer action on others where agreement as to the proper course could not be reached. Proposals remaining subject to disagreement include: liberalization of restrictions on reexports and use of U.S. origin technology or components in foreign products, when other countries exercise comparable controls over the products; removing controls on technical data relating to commodities that are not subject to control; eliminating supporting documentation for applications to export to non-COCOM, non-Communist destinations; and permitting temporary exports for demonstration in Communist countries without the delays inherent in determining whether there is a likelihood of approving subsequent sale. There are differences of opinion between some of the agencies as to the national security implications of liberalizing these procedures. Consultations with the agencies on the areas of disagreement are continuing, and the Department will report to Congress as soon as the issues are resolved.

The 1972 amendment also required that, upon written request by representatives of a substantial segment of any industry that produces commodities and technical data that are subject to, or being considered for, national security controls, the Secretary appoint a technical advisory committee for any grouping of such commodities and technical data that he determined to be difficult to evaluate because of questions concerning technical matters, worldwide availability and actual utilization of production and technology, or licensing procedures. The function of these technical advisory committees is to advise and assist the Secretary and other appropriate U.S. Government agencies and officials regarding actions designed to carry out the policy of the act.

To date, seven technical advisory committees have been established. These provide advice with respect to computer systems; telecommunications equipment; numerically controlled machine tools; semiconductors; semiconductor manufacturing and test equipment; computer peripherals, components, and related test equipment; and electronic instrumentation. The latter committee will hold its first meeting early in April. The first six committees have been meeting frequently and some have formed subcommittees to deal with specific problem areas.

One of the policy purposes for which export controls are authorized under the Export Administration Act is "to further significantly the foreign policy of the United States and to fulfill its international responsibilities." In imposing controls under this authority, the Department of Commerce looks to the State Department for guidance.

The virtual embargo on trade with Cuba, as well as North Vietnam and North Korea, is a result of both national security and foreign policy considerations. It is part of the U.S. Government's total effort in conjunction with policies of the Organization of American States, to isolate the Castro regime and to counter its threat to the Western Hemisphere. In the foreign policy area, however, special note should be made of the increased interest of certain Western Hemisphere countries in resuming normal trade with Cuba. On April 18, the Department of State announced that Argentine subsidiaries of certain U.S. automotive firms would be permitted to sell cars and trucks to Cuba. However, it was strongly emphasized that this decision is an exception to the embargo and does not constitute a change in U.S. policy toward trade with Cuba.

In conformity with U.N. Security Council resolutions of 1965, 1966, and 1968, there is a general embargo on all shipments to Southern Rhodesia except for certain published media and commodities for strictly humanitarian, educational, charitable, or medical uses.

In conformity with the U.N. Security Council resolution of 1963, the United States has imposed an embargo on shipments to the Republic of South Africa of arms, munitions, military equipment, and materials for their manufacture and maintenance. While the principal responsibility for administering this embargo policy is borne by the Department of State's Office of Munitions Control, the Commerce Department supplements State's program by controlling the shipment to the Republic of South Africa of multipurpose commodities that have some military applications, such as aircraft and communications sys-

tems. The general policy is to deny applications for such commodities when there is a likelihood of paramilitary end use.

The Department also maintains controls over exports to Portugal and its African territories of certain exports with military as well as civilian end uses. The policy is to deny exports likely to be used for paramilitary programs in the territories. Although a new government has taken office in Portugal, as of now there has been no change in our export control policy toward Portugal and its African territories.

Since the 1967 Arab-Israeli war, Commerce has maintained control over exports to this area of dual-purpose commodities that are likely to be used for military purposes. These controls are complementary to the munitions control of the Department of State.

In support of the Limited Nuclear Test Ban Treaty and the U.S. nuclear nonproliferation policy, the Department has, since 1965, maintained export controls to all destinations over commodities and technical data used in the development or testing of nuclear weapons and explosive devices. These controls also extend to equipment and technology relating to maritime nuclear propulsion projects.

Of the three policy declarations in the Export Administration Act of 1969, as amended, the one designed to protect the domestic economy from inflationary effects of export demand for short-supply commodities has come into prominence over the past year. We have witnessed the major internationally traded basic raw materials and foodstuff, which heretofore were in world surplus, become in tight supply and rise to record price levels. The termination of wage and price controls should place domestic purchasers on a more competitive footing with foreign purchasers for commodities in the world shortage. While the present phase of widespread supply difficulties will surely abate, short supplies and rising prices of some commodities can be expected to arise intermittently in the future. We must recognize the impact such trends can have on a free market economy.

Following the 1972 amendments to the Export Administration Act, at which time the Congress legislatively terminated export controls on cattlehides, the short supply authority was not invoked until the summer of 1973. Since then, controls have been used with respect to certain agricultural commodities, ferrous scrap, and petroleum products. The authority under the act has been exercised by a combination of "reporting requirements," designed to obtain adequate data on demand and supply, "licensing requirements" without quantitative restrictions, and "quantitative restrictions" which during very brief periods have even amounted to a total "embargo."

In this connection, I wish strongly to reaffirm the administration's belief that export expansion is vital to the Nation's economic health and that export controls should only be imposed when they are absolutely necessary. The long-term interest of the United States continues to be the elimination of barriers to international trade to assure overseas markets for our goods and access to those foreign products that we require. The short supply controls we imposed last summer on certain agricultural products and on ferrous scrap and, more recently, on crude petroleum and energy-related petroleum products do not signal a reversal of this policy. The fact that we removed controls

on exports of agricultural products just as soon as the supply situation improved is evidence of our determination not to interfere with free market forces any longer than necessary.

We recognize that problems arose in our administration of the short supply program last summer. Hard decisions had to be made within very short deadlines without, quite frankly, our having available the demand supply data we needed to fully understand the impact which a complex combination of factors was having on the domestic market. Census statistics on current exports, for example, were not available until 3 or 4 weeks following the month covered, and we lacked an adequate basis on which to project future foreign demand. Domestic production and inventory statistics were also somewhat inadequate.

We are, however, considering steps to correct the deficiencies in data availability from Government sources by mobilizing the resources of the Census Bureau, which is widely acknowledged to have the most efficient and reliable data collection procedures of any agency in the world. The Bureau of the Census has under review the following steps:

Initiate a feasibility study to develop a program for the collection of monthly quantitative data on selected commodities, covering domestic production and inventories held by manufacturers and wholesaler outlets.

Proceed, in cooperation with the U.S. Customs Service, to explore possible ways to expedite the collection and compilation, and to upgrade the statistical reliability, of the monthly U.S. export and import statistics for all commodities.

Initiate a review of the reporting of trade statistics in selected items by the major trading nations, with a view ultimately of developing a methodology for a multilateral uniform data base.

In the meantime, although we recognize the drawbacks in our ad hoc reporting requirements, we shall continue to require reports from industry on commodities that are in tight supply, whenever data on the demand/supply of such commodities is needed for Government decisionmaking. For example, we are currently requiring reports on the production, imports, inventories, shipments, and price of certain chemical fertilizers.

In this connection, the Department construes section 7(a) of the Export Administration Act, which authorizes us to require any person to report whatever data is necessary for the "enforcement" of the act to authorize such collection of data prior to reaching any conclusion as to whether or not controls on exports of such commodities should be imposed.

I would now like briefly to describe the short supply programs administered since the act was amended in 1972. Inasmuch as these measures have received considerable publicity, I will not go into all of the details of the actions taken.

On May 22, 1973, in response to recommendations from many domestic consumers, the Department began monitoring the foreign demand and actual exports of ferrous scrap. On July 2, exports of these commodities were placed under validated license control to all destinations. Except in the case of Japan, which voluntarily agreed to postpone certain of its orders for 1974 delivery, the general policy was to issue licenses against orders accepted on or before July 1, 1973.

Exports to Japan were controlled by relating U.S. export licenses to Japanese import permits. At the beginning of the first quarter of 1974, the licensing policy was changed from one based on accepted orders to one based on the individual exporter's past participation in exports of ferrous scrap during the period July 1, 1970, to June 30, 1973. The first quarter quota was established at 2.1 million short tons.

The establishment of this quota system for licensing ferrous scrap permitted the Department to discontinue its reporting requirement on actual exports. The requirement to report anticipated exports, however, was retained as a monitoring device to assist in forward planning for this program.

The overall quota for the second quarter will remain at 2.1 million short tons, but it is anticipated that some changes will be made in individual country quotas.

On December 13, 1973, the Department announced that, because of the critical energy shortage facing the world economy, a licensing system was being imposed on exports of crude oil and certain energy-related petroleum products. This action was simultaneous with publication by the Federal Energy Office of proposed domestic allocation regulations for petroleum and petroleum products. Initially, all such products, except crude oil, were licensed without quantitative restrictions. The only exports of crude oil licensed were those which would result in imports of equivalent or greater quantities of energy-related petroleum products. This was done to reflect the policy expressed by Congress in the Alaskan Pipeline Act.

In late January and early February 1974, the open-end policy of licensing petroleum products was discontinued and a licensing system based on country quotas equal to historic exports during the period January 1971 through June 1973, was imposed. As in the case of ferrous scrap, exporters were entitled to a share of these quotas based on their past participation in exports of the commodities under control.

During the first session of this Congress, two bills were introduced to provide broader authority to impose export controls in short supply situations.

H.R. 8547 passed the House on September 6, 1973. This bill, by substituting the word "or" for the word "and" in section 3(2)(A) of the act, would have allowed export controls to be imposed in the event of either a domestic shortage or an inflationary impact caused by abnormal foreign demand. However, it contained other amendments to the act that were undesirable.

S. 2053, which the administration supported, contained the same amendment to section 3(2)(A) as H.R. 8547, but also would have authorized export controls "to curtail serious inflation in domestic prices." The Senate Banking Committee, however, rejected this bill and reported, instead, as the Senate version of H.R. 8547, a bill which merely deleted the qualifying adjective "abnormal" preceding the term "foreign demand" in section 3(2)(A) of the act. No further action was taken on this bill by the Senate, since it was felt preferable that amendments to the act be considered more fully in the context of these extension hearings.

Although we have experienced some shortages in particular commodities over the last decade, these situations were highly unusual,

usually very short term, and seldom reflected a shortage experienced worldwide. Since last summer, as you know, we have experienced tight supply/demand and record price levels in most of the major internationally traded basic raw materials and foods. The problems raised by short supplies and rising prices impact both international trade and monetary policy. Solutions must come from international cooperation and consultations and not through shortsighted unilateral actions which adversely affect all concerned. We propose two amendments to section 3 of the Export Administration Act to deal with worldwide shortages. First, we propose that the Export Administration Act be amended to include an express declaration by Congress that international solutions to problems of world shortages, whenever feasible, are preferable to unilateral actions. This declaration of policy would in no way affect our authority and determination to act unilaterally when export controls become necessary to protect the domestic consumer. The President has clearly indicated his intention to pursue the course of international cooperation whenever feasible. The Washington meeting of the Major Energy Consumers in February, the World Food Conference to be held this fall, and the thrust of our suggested provisions of the Trade Reform Act are tangible examples of this policy.

Second, we propose that the Export Administration Act be amended to authorize the President to use export controls, to the extent appropriate to retaliate against a nation or group of nations which has unreasonably restricted U.S. access to their supply of a particular commodity. This will complement authority included in the proposed Trade Reform Act to retaliate by imposing duties or other import restrictions in response to unfair foreign export controls or other unfair denials of access to supplies. In determining the extent to which retaliation against a nation or group of nations which have unreasonably restricted U.S. access to their supply of a particular commodity would be appropriate, the President would give full consideration to the relationship of such action to the international obligations of the United States. It should be observed in this connection that in the Senate hearings on the Trade Reform Act, administration witnesses have supported a provision allowing for negotiating international rules and procedures governing export controls as part of the upcoming trade negotiations.

We propose also that section 4 of the act be amended to broaden the options available to the Department in administering short supply controls. At present, when it is determined that only a certain amount of a specified commodity should be exported in a given time period, the usual method of allocating this quota has been to apportion it in accordance with the exporters' past participation in this trade. However, this system, in effect, freezes export trade into a set pattern with little regard to new forces that might appear in the marketplace. Additionally, windfall profits may accrue to some exporters simply by virtue of their past participation. Two alternatives present themselves. One is the use of an export fee, and the other is the use of an auction system for distributing export licenses. Since both would provide a reasonable means of controlling exports while opening the available quota to all exporters, regardless of past history, we believe

the Department should have the option to use either of these methods, as well as the traditional means, depending upon the commodities to be controlled and the existing trade patterns.

I cannot, of course, anticipate the specific situations in which either of these methods would appear most appropriate. I can, however, generally say that export fees would appear to be particularly effective when the level of exports does not need to be severely cut back. On the other hand, an auction system would work well in a situation where exports must be severely curtailed. In such a case a licensing system based on prior export history is not desirable because many exporters would receive a quota so small that it may not be economic for them to use it. While we are on the subject of auctions, I would like to make clear that we do not contemplate administering such auctions in a way that would allow a few exporters to corner the market. We would probably place ceilings on the amount of quota which may be allocated to any single exporter, for export to any given country, and to any particular purchaser in a given country.

Lastly, one amendment is believed necessary to respond to recent developments in the national security area. Many U.S. companies have recently signed technical cooperation agreements with the U.S.S.R. and other East European governments calling for exchanges of technology. The signing of such an agreement does not require the prior approval of the Department. However, to the extent that this technology is of U.S. origin and is not generally available to the public, which is usually the case, it may not be exported to a Communist country or area without our prior approval. At the present time, the Department usually is not aware of the details of such technical cooperation agreements until the U.S. firm applies for an export license. This may be some time after the agreement is signed, and, in the meantime, there is a risk that significant strategic technology might inadvertently be transmitted to the Communist country.

It is proposed, therefore, that the act be amended to require U.S. firms and their foreign affiliates to report within 15 days to the Department any written understanding which would be likely to result in the export to a Communist country of U.S.-origin technical data which is not generally available to the public. The term "Communist country" would not be construed to apply to Yugoslavia which, as you know, is treated for export control purposes as a Western European country. Not only will this early warning system permit the Government to consider in a timely manner the strategic implications of such undertakings, but it will also enable the Department to assist such firms more promptly in carrying out those transactions that do not involve overriding national security implications.

The Department of Commerce urges the enactment of H.R. 13840, which would extend the Export Administration Act of 1969 through June 30, 1977, and would amend that act as summarized above.

I would now like to turn briefly to H.R. 13838, which would extend the life of the Export-Import Bank and increase its lending authority by a further $10 billion. I urge the subcommittee's favorable consideration of this legislation.

The continuance and expansion of Eximbank's financial programs is indispensable to our foreign trade position. As you know, the U.S. trade balance went into deficit in 1971 and 1972—for the first times in this century—but recovered to a $1.7 billion surplus position in 1973. In the first quarter of 1974, our trade showed a $687 million surplus. While this recent export performance is welcome, I must caution this subcommittee against any premature forecast for the remainder of 1974, particularly since there was a deficit in March of $171 million. Maintenance of our surplus position in the following quarters will depend on numerous factors, including the strength of our exports, economic conditions abroad, and the level of petroleum prices. Payment for oil imports are now running more than $1 billion a month over a year ago, and in the next few months significantly larger shipments of petroleum will be arriving from the Arab countries. Given the uncertainties in the U.S. trade outlook, therefore, we believe that Eximbank support for American exports is needed more than ever before.

We also support the extension of the Export-Import Bank Act by a full 4 years to June 30, 1978. Such an extension is appropriate in order to provide confidence in the continuity of Eximbank facilities which the business community needs in order to plan and develop larger export projects.

In short, the Department of Commerce considers Eximbank credit facilities to be an essential adjunct to our export expansion program. I urge this subcommittee to recommend enactment of this important legislation.

Finally, I should like to comment briefly on H.R. 13839, which extends the authorization of appropriations for the Council on International Economic Policy until the expiration of the International Economic Policy Act, currently set at June 30, 1977. The Council has proven to be a most valuable mechanism for international economic policy formulation and its staff have provided effective leadership in developing the necessary analyses and recommendations. I strongly recommend approval of the amended authorization.

[Mr. Dent's prepared statement follows:]

STATEMENT OF FREDERICK B. DENT
SECRETARY OF COMMERCE
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL TRADE OF
THE HOUSE COMMITTEE ON BANKING AND CURRENCY
MAY 1, 1974

INTRODUCTION

I welcome this opportunity to appear, on behalf of the Department of Commerce, in support of H.R. 13840, a bill which extends the authority for the regulation of U.S. exports under the Export Administration Act of 1969, as amended, for three years from June 30, 1974 to June 30, 1977, and which amends the Act in certain other respects. Before discussing these proposed amendments, I will also comment briefly on H.R. 13838, a bill to amend and extend the Export-Import Bank of 1945, as amended, and on H.R. 13839, a bill to authorize appropriations to implement the International Economic Policy Act of 1972. First, I should like to discuss the need for an extension of the Export Administration Act and summarize the Department's administration of the Act, since the Act was extended in 1972.

NEED TO EXTEND THE ACT

The Export Administration Act presently authorizes the imposition of restrictions on exports to the extent necessary to carry out three basic purposes:

national security, foreign policy and protecting the domestic economy from shortages. Continuation of this statutory authority to control exports is needed for the following reasons:

First, we still need to control exports of commodities and technical data in the interest of U.S. and Free World security. Even though there has been significant progress toward improving relationships with the Soviet Union (USSR), Eastern Europe, and the People's Republic of China (PRC), the time has not arrived when we can permit all countries to have uncontrolled access to the small portion of our national product that is strategically oriented. Also, the United States continues to cooperate with 14 other Free World countries participating in the international strategic control system (COCOM) in controlling certain commodities and advanced technologies which all of the COCOM countries agree have a significant strategic potential. Statutory authority to control exports is essential to continued U.S. participation in this international effort.

Second, we must continue to carry out certain export control programs which further U.S. foreign policy as well as U.S. national security. We prohibit virtually all exports to North Vietnam, North Korea and Cuba pursuant to the foreign policy authority of the Act. This authority is also used to implement the U.N. resolution calling for an embargo on trade with Southern Rhodesia and on shipments of arms to South Africa and the Portuguese African territories. Under the foreign policy authority, we have excluded exports of para-military items to certain Middle East countries. Finally, this authority enables the government to control exports of commodities and technologies for use in the development and testing of nuclear weapons in support of the Limited Nuclear Test Ban Treaty and the nuclear non-proliferation policy of the United States.

Third, and of increasing importance to the national economy, the Act provides necessary authority to control exports of commodities in short supply. Critical commodity shortages are a matter of concern to all of us.

While export controls should be established only when demonstrably necessary, the authority to restrict exports to mitigate such scarcities and to preserve adequate supplies for our domestic economy is indispensable. For example, foreign demand for ferrous scrap would result in more than twice the level of exports currently authorized under our export controls. These controls will terminate on June 30, unless the Act is extended.

EAST-WEST TRADE

The United States has made substantial efforts to increase its level of trade with the Soviet Union, Eastern Europe and the PRC. Such efforts are aimed at developing closer ties by normalizing commercial relations and also at increasing U.S. exports to these countries to improve our overall balance of trade. Trade between the U.S. market economy and these non-market economies obviously demands a stronger U.S. Governmental role than is usual in our international relationships, because of the difficulty experienced by even the largest firms in matching the negotiating strength of these countries

and because of the unique problems inherent in trade between the state-controlled and the free market economies.

The Government has taken a number of steps to fulfill its responsibilities in this area:

- The Joint U.S.-U.S.S.R. Commercial Commission established at the Moscow Summit in May 1972 in the interest of broadening and facilitating commercial ties between the U.S. and U.S.S.R., is the ongoing mechanism for commercial dialogue between the two countries at both the policy and the staff levels.
- The U.S.-U.S.S.R. Trade agreement of October 1972, which was negotiated under the auspices of this Commission, contains provisions for prevention of market disruption, for U.S. business facilities in Moscow, for improved U.S. commercial representation and, subject to Congressional approval, for MFN tariff treatment. It also contains provisions for arbitration of commercial disputes in a third country and other measures to normalize commercial relations.

- The Washington Summit (June 1973) stressed cooperation; the furtherance of mutual interests and benefits and withdrawal from confrontation, hostility and mistrust. An important product of the emphasis on these goals has been the effort to expand U.S.-Soviet commercial relations. Shortly after the Summit, Soviet approval was announced for expanded American commercial facilities in Moscow. Also announced was the formation of the U.S.-U.S.S.R. Trade and Economic Council, a private organization aimed at the expansion of our economic relationship.
- In addition to the negotiations with the Soviet Union, fruitful discussions have been held with such countries as Poland, Hungary and Romania. The product of this and other meetings has been a new relationship. The relationship has not been limited to the formation of new organizations, however. It has shown up in an increase in trade.

In 1973, U.S. exports to all these countries increased by an average of about 182 percent over 1972 levels. Individual country increases ranged from a tenfold gain in exports to the PRC to no gain in exports to Albania. In terms of volume, the PRC and the U.S.S.R. were the major contributors (75 percent) both in terms of export increases over 1972 and in terms of 1973 exports to all these countries.

Exports to the U.S.S.R. increased by $647 million to a 1973 total of nearly $1.2 billion, while the PRC absorbed an additional $626 million of U.S. exports thereby increasing its purchases of U.S. products from about $64 million in 1972 to almost $690 million in 1973.

Whether this growth continues will depend, among other factors, on the resolution of the issue of extension of most-favored-nation tariff treatment, and of credit facilities, to these countries.

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NATIONAL SECURITY CONTROLS

The Equal Export Opportunity Act, which was enacted August 29, 1972, amended the Export Administration Act of 1969 to require the Secretary of Commerce, in cooperation with other appropriate government agencies and technical advisory committees, to conduct a review (1) of commodity and technical data under U.S. unilateral control and (2) of export licensing procedures that were, or were claimed to be, more burdensome than those imposed by our COCOM partners. In addition, the 1972 amendments provided for the establishment of technical advisory committees to advise the government on exports of commodities and technical data which are subject to controls because of their significance to the national security.

The amendment required the Secretary of Commerce to report, within nine months after enactment, on actions taken as a result of the review of the unilateral control and of the burdensome licencing procedures imposed by the United States. The Department's Special Report to the President and the Congress, dated May 29, 1973, met this requirement.

Commodity Review

The report indicated that the number of commodity categories under unilateral control had been reduced from 550 to 73, including 30 commodity categories which as of the reporting date were held under interim control pending further review of the resolution of interagency differences. Since then, 15 of the 30 categories have undergone further review with the result that the following commodities have been decontrolled:

> Non-military helicopters and aircraft devoid of certain avionics instruments; aerial and instrumentation film and plates and photographic film and plates falling below specific performance characteristics; streak cameras lacking certain performance specifications; ultraflat glass blanks; certain types of heat exchangers; centrifugal action testing equipment; and 802 miscellaneous chemical products contained in five "basket" categories.

In the review of these 15 categories, the following commodities were found to warrant retention under unilateral control:

> Certain types of aerial camera film, aerial duplicating film and instrumentation and/or recording film; fluidic based aircraft control devices; doppler sonar radar equipment; streak cameras with operating characteristics above certain parameters; and heat exchangers meeting certain parameters.

In addition, the Department, as part of its continuing review process and in conjunction with the other interested government agencies, reviewed and decontrolled 12 categories of equipment or instruments containing helium-neon gas lasers, and certain parts and accessories for aircraft engines.

As a result of the Department's continuing review program, the commodities remaining under Department of Commerce license control for national security reasons are, with relatively

few exceptions, internationally controlled through the COCOM structure. These commodities are, in large measure, high technology products, heavily weighted in the electronics area. Prominent examples are computers, highly sophisticated numerically controlled machine tools, certain videotape recorders, the more advanced types of oscilloscopes, and telecommunications equipment. Because most of these products have both peaceful and strategic uses, there is no hard and fast embargo by any of the COCOM countries, including the United States. Such exports, however, must be carefully scrutinized, on a case-by-case basis, to quote the language of the Act, "from the standpoint of their significance to the national security of the United States." The other COCOM countries scrutinize their exports on a similar basis, and there is an international consultative procedure that must be followed before most such transactions can be approved.

<u>Burdensome Procedures</u>

With regard to our review of burdensome procedures, the May 29 report indicated that the Department, after consultations with other appropriate agencies, decided to retain or modify certain procedures and to defer action on others where agreement as to the proper course could not be reached. Proposals remaining subject to disagreement include: liberalization of restrictions on reexports and use of U.S. origin technology or components in foreign products, when other countries exercise comparable controls over the products; removing controls on technical data relating to commodities that are not subject to control; eliminating supporting documentation for applications to export to non-COCOM, non-communist destinations; and permitting temporary exports for demonstration in communist countries without the delays inherent in determining whether there is a likelihood of approving subsequent sale. There are differences of opinion between some of the agencies as to the national security implications of liberalizing these procedures.

Consultations with the agencies on the areas of disagreement are continuing, and the Department will report to Congress as soon as the issues are resolved.

Technical Advisory Committees

The 1972 Amendment also required that, upon written request by representatives of a substantial segment of any industry that produces commodities and technical data that are subject to, or being considered for, national security controls, the Secretary appoint a technical advisory committee for any grouping of such commodities and technical data that he determined to be difficult to evaluate because of questions concerning technical matters, worldwide availability and actual utilization of production and technology, or licensing procedures. The function of these technical advisory committees is to advise and assist the Secretary and other appropriate U.S. Government agencies and officials regarding actions designed to carry out the policy of the Act.

To date, seven technical advisory committees have been established. These provide advice with respect to Computer Systems; Telecommunications Equipment; Numerically Controlled Machine Tools; Semiconductors; Semiconductor Manufacturing and Test Equipment; Computer Peripherals, Components, and Related Test Equipment; and Electronic Instrumentation. The latter committee will hold its first meeting early in April. The first six committees have been meeting frequently and some have formed subcommittees to deal with specific problem areas.

The principal activity to date has been to provide the Department with technical information and advice that will be considered in formulating the government's position in regard to the forthcoming COCOM list review. In this connection, the committees have been:

- identifying commodities being produced in non-COCOM Western Europe and in Eastern Europe that are equivalent to those produced in the United States;

- providing the Department with technical information that will enable the government to judge whether certain commodities meet the established strategic criteria;
- identifying military and civil uses of certain types of equipment under export control; and
- offering conclusions and recommendations as to desirable courses of action.

FOREIGN POLICY CONTROLS

One of the policy purposes for which export controls are authorized under the Export Administration Act is "to further significantly the foreign policy of the United States and to fulfill its international responsibilities." In imposing controls under this authority, the Department of Commerce looks to the State Department for guidance.

Cuba

The virtual embargo on trade with Cuba (as well as North Vietnam and North Korea) is a result of both national security and foreign policy considerations. It is part of the U.S. Government's total effort, in conjunction with policies of the Organization of American States, to isolate the Castro regime and to counter its

threat to the Western Hemisphere. In the foreign policy area, however, special note should be made of the increased interest of certain Western Hemisphere countries in resuming normal trade with Cuba. On April 18, the Department of State announced that Argentine subsidiaries of certain U.S. automotive firms would be permitted to sell cars and trucks to Cuba. However, it was strongly emphasized that this decision is an exception to the embargo and does not constitute a change in U.S. policy toward trade with Cuba.

Southern Rhodesia

In conformity with U.N. Security Council Resolutions of 1965, 1966, and 1968, there is a general embargo on all shipments to Southern Rhodesia except for certain published media and commodities for strictly humanitarian, educational, charitable, or medical uses.

Republic of South Africa

In conformity with the U.N. Security Council Resolution of 1963, the United States has imposed an embargo on shipments to the Republic of South Africa of arms, munitions, military equipment and materials for their manufacture and maintenance. While the principal responsibility for administering this embargo policy is borne by the Department of State's Office of Munitions Control, the Commerce Department supplements

State's program by controlling the shipment to the Republic of South Africa of multi-purpose commodities that have some military applications (e.g., aircraft and communications systems). The general policy is to deny applications for such commodities when there is a likelihood of para-military end-use.

Portuguese African Territories

The Department also maintains controls over exports to Portugal and its African Territories of certain exports with military as well as civilian end-uses. The policy is to deny exports likely to be used for para-military programs in the Territories. Although a new government has taken office in Portugal, as of now there has been no change in our export control policy towards Portugal and its African Territories.

The Middle East

Since the 1967 Arab-Israeli war, Commerce has maintained control over exports to this area of dual-purpose commodities that are likely to be used for military purposes. These controls are complementary to the Munitions Controls of the Department of State.

<u>Nuclear-related Commodities</u>

In support of the "Limited Nuclear Test Ban Treaty" and the U.S. nuclear non-proliferation policy, the Department has, since 1965, maintained export controls to all destinations over commodities and technical data used in the development or testing of nuclear weapons and explosive devices. These controls also extend to equipment and technology relating to maritime nuclear propulsion projects.

SHORT SUPPLY CONTROLS

Of the three policy declarations in the Export Administration Act of 1969, as amended, the one designed to protect the domestic economy from inflationary effects of export demand for short-supply commodities has come into prominence over the past year. We have witnessed the major internationally traded basic raw materials and foodstuff, which heretofore were in world surplus, become in tight supply and rise to record price levels. The termination of wage and price controls should place domestic purchasers on a more competitive footing with foreign purchasers for commodities in world shortage. While the present phase of widespread supply difficulties will surely abate, short supplies and rising prices of some commodities can be expected to arise intermittently in the future. We must recognize the impact such trends can have on a free market economy.

Following the 1972 amendments to the Export Administration Act, at which time the Congress legislatively terminated export controls on cattlehides, the short supply authority was not invoked until the summer of 1973. Since then, controls have been used with respect to certain agricultural commodities, ferrous scrap and petroleum products. The authority under the Act has been exercised by a combination of "reporting requirements," designed to obtain adequate data on demand and supply, "licensing requirements" without quantitative restrictions, and "quantitative restrictions" which during very brief periods have even amounted to a total "embargo." Some of the actions we have taken to restrict exports for short supply reasons have been criticized, not only from the standpoint of basic lack of justification, but also as to the manner in which these actions were administered. By the same token, there are those who are critical because they believe our controls were not sufficiently rigorous and should have been extended to a broader range of commodities.

In this connection, I wish strongly to reaffirm the Administration's belief that export expansion is vital to the nation's economic health and that export

controls should only be imposed when they are absolutely necessary. The long term interest of the United States continues to be the elimination of barriers to international trade to assure overseas markets for our goods and access to those foreign products that we require. The short supply controls we imposed last summer on certain agricultural products and on ferrous scrap and, more recently, on crude petroleum and energy-related petroleum products do not signal a reversal of this policy. The fact that we removed controls on exports of agricultural products just as soon as the supply situation improved is evidence of our determination not to interfere with free market forces any longer than necessary.

We recognize that problems arose in our administration of the short supply program last summer. Commodities that are actively traded in the futures market became the subject of abnormal foreign demand which only in part reflected increases in foreign needs. Also involved was speculative buying as a hedge against currency fluctuations. Hard decisions had to be made within very short deadlines without, quite

frankly, our having available the demand supply data we needed to fully understand the impact which a complex combination of factors was having on the domestic market. Census statistics on current exports, for example, were not available until three or four weeks following the month covered, and we lacked an adequate basis on which to project future foreign demand. Domestic production and inventory statistics were also somewhat inadequate.

In an attempt to get more timely data, not only on actual exports, but also on anticipated exports, the Department introduced a weekly reporting requirement covering a wide range of commodities.*/ The data reported, however, often turned out to be unreliable and required substantial auditing in the field before it could be used as a basis for an informed judgment. Also, there is a serious drawback, insofar as collecting data on anticipated exports is concerned, because certain commodities are traded on a spot order basis, with no long-term lead

*/ The portion of the requirement relating to export sales of agricultural commodities was later terminated when the Department of Agriculture instituted a system to collect such data under the Agriculture and Consumer Protection Act of 1973.

time between the order and the shipment. Obviously, in such situations, data concerning anticipated exports are not available promptly enough to be used in evaluating potential short supply situations.

It is clear that, in certain circumstances, data on manufacturers' and wholesalers' shipments and inventories, as well as import statistics and data on foreign supplies and consumption, are essential to informed demand/supply judgments. Publication of U.S. import data is delayed even longer than export data because of the processing time for liquidation of entries; there is little, if any, data now available on wholesalers' supplies and inventories, and the usefulness of foreign data suffers from a lack of uniformity in the reporting of published international statistics.

We are, however, considering steps to correct the deficiencies in data availability from government sources by mobilizing the resources of the Census Bureau, which is widely acknowledged to have the most efficient and reliable data collection procedures of any agency in the world. The Bureau of the Census has under review the following steps:

-- Initiate a feasibility study to develop a program for the collection of monthly

quantitative data on selected commodities, covering domestic production and inventories held by manufacturers and wholesaler outlets;

-- Proceed, in cooperation with the U.S. Customs Service, to explore possible ways to expedite the collection and compilation, and to upgrade the statistical reliability, of the monthly U.S. export and import statistics for all commodities.

-- Initiate a review of the reporting of trade statistics in selected items by the major trading nations, with a view ultimately of developing a methodology for a multilateral uniform data base.

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In the meantime, although we recognize the drawbacks in our ad hoc reporting requirements, we shall continue to require reports from industry on commodities that are in tight supply, whenever data on the demand/supply of such commodities is needed for government decision-making. For example, we are currently requiring reports on the production, imports, inventories shipments and price of certain chemical fertilizers.

In this connection, the Department construes Section 7(a) of the Export Administration Act, which authorizes us to require any person to report whatever data is necessary for the "enforcement" of the Act to authorize such collection of data prior to reaching any conclusion as to whether or not controls on exports of such commodities should be imposed.

I would now like briefly to describe the short supply programs administered since the Act was amended in 1972. Inasmuch as these measures have received considerable publicity, I will not go into all of the details of the actions taken.

Ferrous scrap

On May 22, 1973, in response to recommendations from many domestic consumers, the Department began monitoring the foreign demand and actual exports of ferrous scrap. On July 2nd, exports of these commodities were placed under validated license control to all destinations. Except in the case of Japan, which voluntarily agreed to postpone certain of its orders for 1974 delivery, the general policy was to issue licenses against orders accepted on or before July 1, 1973. Exports to Japan were controlled by relating U.S. export licenses to Japanese import permits. At the beginning of the first quarter 1974, the licensing policy was changed from one based on accepted orders to one based on the individual exporter's past participation in exports of ferrous scrap during the period July 1, 1970 to June 30, 1973. The first quarter quota was

established at 2.1 million short tons.

The establishment of this quota system for licensing ferrous scrap permitted the Department to discontinue its reporting requirement on actual exports. The requirement to report anticipated exports, however, was retained as a monitoring device to assist in forward planning for this program.

The overall quota for the second quarter will remain at 2.1 million short tons, but it is anticipated that some changes will be made in individual country quotas.

Agricultural commodities

On June 13, 1973, as part of the economic stabilization program announced by the President, the Department began monitoring the exports of, and foreign demand for, a wide range of agricultural products by requiring weekly reports from exporters. Later that month, with the approval of the Secretary of Agriculture, the Department imposed a brief embargo on exports of soybeans, cottonseed and various oil and meal products. The embargo was followed by the

establishment of a licensing system that authorized shipments, in whole or in part depending on the commodity, against orders accepted on or before June 13. Subsequently, additional agricultural products for which there occurred a transfer of foreign demand were brought under the licensing system. This control program lasted until October 1 and was terminated upon advice from the Secretary of Agriculture that the 1973 doemstic harvest would be adequate to satisfy both domestic and foreign demand.
The monitoring system remained in effect until November 19, 1973, when the Department of Agriculture became solely responsible for monitoring agricultural commodities pursuant to the authority contained in Section 812 of the Agriculture and Consumer Protection Act of 1973.

Petroleum products

On December 13, 1973, the Department announced that, because of the critical energy shortage facing the world economy, a licensing system was being imposed on exports of crude oil and certain energy-related petroleum products. This action

was simultaneous with publication by the Federal Energy Office of proposed domestic allocation regulations for petroleum and petroleum products. Initially, all such products, except crude oil, were licensed without quantitative restrictions. The only exports of crude oil licensed were those which would result in imports of equivalent or greater quantities of energy-related petroleum products. This was done to reflect the policy expressed by Congress in the Alaskan Pipeline Act.

In late January and early February 1974, the open-end policy of licensing petroleum products was discontinued and a licensing system based on country quotas equal to historic exports during the period January, 1971 through June, 1973, was imposed. As in the case of ferrous scrap, exporters were entitled to a share of these quotas based on their past participation in exports of the commodities under control.

<u>Chemical Fertilizers</u>

On November 19, 1973, because of the increasing concern over the supply/demand situation with

respect to certain fertilizers and related chemicals, the Department instituted a reporting program to obtain timely information with which to assess the supply and pricing of these materials. The monitoring program required producers, exporters and importers of certain specified fertilizer material to submit relevant information concerning production, inventories, shipments, foreign orders, and prices. This program is continuing.

ADMINISTRATION RECOMMENDATIONS REGARDING REVISIONS OF THE ACT

During the first session of this Congress, two bills were introduced to provide broader authority to impose export controls in short supply situations.

H.R. 8547 passed the House on September 6, 1973. This bill, by substituting the word "or" for the word "and" in Section 3(2) (A) of the Act, would have allowed export controls to be imposed in the event of either a domestic shortage <u>or</u> a inflationary impact caused by abnormal foreign demand. However, it contained other amendments to the Act that were undesirable.

S. 2053, which the Administration supported, contained the same amendment to Section 3(2)(A) as H.R. 8547, but also would have authorized export controls "to curtail serious

inflation in domestic prices." The Senate Banking Committee, however, rejected this bill and reported, instead, as the Senate version of H.R. 8547, a bill which merely deleted the qualifying adjective "abnormal" preceding the term "foreign demand" in Section 3(2)(A) of the Act. No further action was taken on this bill by the Senate, since it was felt preferable that amendments to the Act be considered more fully in the context of these extension hearings.

The Administration bill, S. 2053, reflected the initial thought that changes in the Act were necessary to provide authority to deal with developing short supply situations that threatened to frustrate economic stabilization efforts. At the time the Bill was submitted, the Department had not taken the actions of last summer in imposing controls on certain agricultural products and on ferrous scrap. Also, The Department had been interpreting Section 3(2)(A) of the Act as an expression of legislative intent that controls on exports not be imposed for short supply reasons until all of the following conditions had actually been demonstrated to exist:

(a) an excessive drain of a scarce material, and

(b) a serious inflationary impact which is caused by

(c) an abnormal foreign demand.

However, clarification of the intent underlying Section 3(2)(A) was provided by the December 7 Report of the Senate Committee on Banking, Housing and Urban Affairs. In effect, the Report held that the Department had taken too restrictive a view of its authority to act under Section 3(2)(A). The Committee noted that the statutory language refers to the use of export controls to the extent necessary to "protect" the domestic economy, and concluded that this indicates legislative intent that the Executive act when it is reasonably apparent that without export restrictions, the situation will deteriorate to the point that all three criteria will soon be met absent such action.

On this basis, we now believe there is no need to amend the basic policy declaration governing the use of export controls for short supply reasons. However, we do believe the Act should be amended and strengthened in other respects to respond to the changing temper of the times. The amendments we believe necessary are set forth in H.R. 13840, and the reasons we support these changes are set forth in the "Statement of Purpose and Need" attached thereto. Let me summarize them here.

Although we have experienced some shortages in particular commodities over the last decade, these situations

were highly unusual, usually very short term, and seldom reflected a shortage experienced world-wide. Since last summer, as you know, we have experienced tight supply/demand and record price levels in most of the major internationally traded basic raw materials and foods. The problems raised by short supplies and rising prices impact both international trade and monetary policy. Solutions must come from international cooperation and consultations and not through short-sighted unilateral actions which adversely affect all concerned. We propose two amendments to Section 3 of the Export Administration Act to deal with world-wide shortages. First, we propose that the Export Administration Act be amended to include an express declaration by Congress that international solutions to problems of world shortages, whenever feasible, are preferable to unilateral actions. This declaration of policy would in no way affect our authority and determination to act unilaterally when export controls become necessary to protect the domestic consumer. The President has clearly indicated his intention to pursue the course of international cooperation whenever feasible. The Washington meeting of the Major Energy Consumers in February, the World Food Conference to be held this fall, and the thrust of our suggested provisions of the Trade Reform Act are tangible examples of this policy. Second, we propose that

the Export Administration Act be amended to authorize the President to use export controls, to the extent appropriate, to retaliate against a nation or group of nations which has unreasonably restricted United States access to their supply of a particular commodity. This will complement authority included in the proposed Trade Reform Act to retaliate by imposing duties or other import restrictions in response to unfair foreign export controls or other unfair denials of access to supplies. In determining the extent to which retaliation against a nation or group of nations which have unreasonably restricted United States access to their supply of a particular commodity would be appropriate, the President would give full consideration to the relationship of such action to the international obligations of the United States. It should be observed in this connection that in the Senate hearings on the Trade Reform Act, Administration witnesses have supported a provision allowing for negotiating international rules and procedures governing export controls as part of the upcoming trade negotiations.

We propose also that Section 4 of the Act be amended to broaden the options available to the Department in administering short supply controls. At present, when it is determined that only a certain amount of a specified commodity should be exported in a given time period, the usual method of allocating this quota has been to apportion

it in accordance with the exporters' past participation in this trade. However, this system in effect, freezes export trade into a set pattern with little regard to new forces that might appear in the market place. Additionally, windfall profits may accrue to some exporters simply by virtue of their past participation. Two alternatives present themselves. One is the use of an export fee, and the other is the use of an auction system for distributing export licenses. Since both would provide a reasonable means of controlling exports while opening the available quota to all exporters, regardless of past history, we believe the Department should have the option to use either of these methods, as well as the traditional means, depending upon the commodities to be controlled and the existing trade patterns.

I cannot, of course, anticipate the specific situations in which either of these methods would appear most appropriate. I can, however, generally say that export fees would appear to be particularly effective when the level of exports does not need to be severely cut back. On the other hand, an auction system would work well in a situation where exports must be severely curtailed. In such a case a licensing system based on prior export history is not desirable because

many exporters would receive a quota so small that it may not be economic for them to use it. While we are on the subject of auctions, I would like to make clear that we do not contemplate administering such auctions in a way that would allow a few exporters to corner the market. We would probably place ceilings on the amount of quota which may be allocated to any single exporter, for export to any given country, and to any particular purchaser in a given country. We would also determine the minimum quantities for which a bid may be entered in such a way as to assure that small exporters would have a fair opportunity to export under the auction system.

Although the Act currently leaves complete discretion in the President to select the method used to administer short supply controls, we believe the Act should be amended to specifically authorize the use of export fees or an auction system, in light of their superficial appearance of similarity to an export tax or duty, which, as you know, raise constitutional questions. Our lawyers have reviewed the relevant court decisions and they are confident that the authority to regulate exports by either a fee or auction of licenses would be constitutional; the only

question that might arise would be on the basis of the particular facts of a particular case. Nevertheless, Congressional sanction is requested in order to provide a full airing on the record of the constitutional issues involved.

Lastly, one amendment is believed necessary to respond to recent developments in the national security area. Many U.S. companies have recently signed technical cooperation agreements with the U.S.S.R. and other East European governments calling for exchanges of technology. The signing of such an agreement does not require the prior approval of the Department. However, to the extent that this technology is of U.S. origin and is not generally available to the public, which is usually the case, it may not be exported to a Communist country or area without our prior approval. At the present time, the Department usually is not aware of the details of such technical cooperation agreements until the U.S. firm applies for an export license. This may be some time after the agreement is signed, and, in the meantime, there is a risk that significant strategic technology might inadvertently be transmitted to the Communist country.

It is proposed, therefore, that the Act be amended to require U.S. firms and their foreign affiliates to report

within 15 days to the Department any written understanding which would be likely to result in the export to a Communist country of U.S.-origin technical data which is not generally available to the public. This term "Communist country" would not be construed to apply to Yugoslavia which, as you know, is treated for export control purposes as a Western European country. Not only will this early warning system permit the government to consider in a timely manner the strategic implications of such undertakings, but it will also enable the Department to assist such firms more promptly in carrying out those transactions that do not involve overriding national security implications.

The Department of Commerce urges the enactment of H.R. 13840, which would extend the Export Administration Act of 1969 through June 30, 1977, and would amend that Act as summarized above. It has already been demonstrated that expanded commercial relations between the United States and the U.S.S.R., the countries of Eastern Europe, and the People's Republic of China can have a favorable impact on our balance of payments. There is room for a continued increase in trade with these nations in

peaceful goods while ensuring that such trade does not adversely affect our national security and foreign policy objectives. The development of world-wide commodity shortages during the past year has added new significance to the short supply authority in the Act and requires the implementation of policies designed to deal with a new situation. The Export Administration Act of 1969, with the amendments proposed will provide the Executive with some of the tools it needs to discharge these responsibilities.

I would now like to turn briefly to H.R. 13838, which would extend the life of the Export-Import Bank and increase its lending authority by a further $10 billion. I urge the Committee's favorable consideration of this legislation.

The continuance and expansion of Eximbank's financial programs is indispensable to our foreign trade position. As you know, the U.S. trade balance went into deficit in 1971 and 1972 -- for the first times in this century -- but recovered to a $1.7 billion surplus position in 1973. In the first quarter of 1974, our trade showed a $687 million surplus. While this recent export performance is welcome, I must caution this Committee against any premature forecast for the remainder of 1974, particularly since

there was a deficit in March of $171 million. Maintenance of our surplus position in the following quarters will depend on numerous factors, including the strength of our exports, economic conditions abroad, and the level of petroleum prices. Payment for oil imports are now running more than $1 billion a month over a year ago, and in the next few months significantly larger shipments of petroleum will be arriving from the Arab countries. Given the uncertainties in the U.S. trade outlook, therefore, we believe that Eximbank support for American exports is needed more than ever before.

Spearheading our export growth of the future will be the high-technology, big-ticket capital equipment projects in which U.S. comparative advantage is the most pronounced. This type of heavy equipment is singularly dependent on Eximbank financing, since it is customarily sold on payment terms of five years or more. Commercial banks are ordinarily unable or reluctant to lend on such lengthy maturities without assistance, and Eximbank's loan program is, often, the only source of long-term financing which is available to supplement commercial bank funds in support

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of these major transactions. Without this essential source, undoubtedly many of our most desirable export opportunities would be lost.

Not less important is the fact that Eximbank loans help U.S. exports to be more competitive. The situation facing many exporters is that their foreign competition is able to obtain low-cost financing from their own governments. The available Government-supported rates for major international projects is given in the attached table, and it is clear that U.S. exporters are only able to meet the competition in the international arena with Eximbank financing at the current 7 percent rate yielding an average 8-8.2 percent rate when combined with private bank funds. Both elements of Eximbank's loan program -- the availability of long-term financing not otherwise obtainable in the private market and its competitive interest rate -- are indispensable to our national export expansion effort.

Of course, Eximbank's assistance extends not only to the relatively large projects of strategic commercial significance, but also to more modest transactions and to smaller businesses engaged in exporting. In fact, the bulk of the Bank's activity is concerned with the

everyday ebb and flow of foreign trade. Since the credit maturities here are shorter, commercial bank financing is relatively plentiful. Eximbank consequently does not compete in supplying funds, but offers an extensive program of guarantee and insurance support to protect against possible default on export debt by the foreign buyer. Such Governmental assurances help stimulate the flow of private credit into the export sector, enable smaller exporters to obtain the private bank financing which they need, and protect them against loss on the credit receivables which they hold.

We also support the extension of the Export-Import Bank Act by a full four years to June 30, 1978. Such an extension is appropriate in order to provide confidence in the continuity of Eximbank facilities which the business community needs in order to plan and develop larger export projects.

In short, the Department of Commerce considers Eximbank credit facilities to be an essential adjunct to our export expansion program. I urge this Committee to recommend enactment of this important legislation.

Finally, I should like to comment briefly on H.R. 13839, which extends the authorization of appropriations for the Council on International Economic Policy until the expiration of the International Economic Policy Act, currently set at June 30, 1977. The Council has proven to be a most valuable mechanism for international economic policy formulation and its staff have provided effective leadership in developing the necessary analyses and recommendations. I strongly recommend approval of the amended authorization.

EXPORT-IMPORT BANK OF THE UNITED STATES

Comparison of Costs of Long-Term Export Credits

Country and Agency	Interest Rate Charged or Supported by Agency	Additional Export Credit Charges	Range of Effective Credit Costs	Definition of Long-Term
United States Eximbank	7.0%	guarantee fee and commitment fee	8.1 - 8.25%	over 5 years
United Kingdom Export Credits Guarantee Department (ECGD)	6.0 - 8.5%	insurance premium, commitment, nego-tiation, and management fees	6.75 - 10.5%	over 5 years
France Banque Francaise du Commerce Exterieur (BFCE)	6.6 - 6.75%	insurance premium	7.0 - 7.95%	over 7 years
Germany Kreditanstalt fuer Wiederaufbau (KfW)	8.25 - 8.75%	insurance premium, commitment fee	9.5 - 10.25%	over 4 years
Italy Mediocredito Centrale	6.0 - 7.5%	insurance premium	6.5 - 9.0%	over 5 years
Japan Eximbank	5.5 - 8.5	insurance premium, commitment fee	7.5 - 10.0%	over 5 years

Mr. ASHLEY. Thank you, Mr. Secretary.

We will proceed to our second witness, Dr. Roger E. Shields, Deputy Assistant Secretary of Defense, International Security Affairs.

Dr. Shields is accompanied by Dr. Maurice J. Mountain, Director of the Office of Strategic Trade in his department.

STATEMENT OF DR. ROGER E. SHIELDS, DEPUTY ASSISTANT SECRETARY OF DEFENSE, INTERNATIONAL SECURITY AFFAIRS; ACCOMPANIED BY DR. MAURICE J. MOUNTAIN, DIRECTOR, OFFICE OF STRATEGIC TRADE; AND CAPT. KEITH H. ROBERTSON, U.S. NAVY, DIRECTOR, INTERNATIONAL ECONOMIC AFFAIRS

Dr. SHIELDS. Thank you, Mr. Chairman.

It is a privilege for me to represent the Department of Defense here today. I welcome this opportunity to express our views on three important legislative measures: the Export-Import Bank extension, the renewed authorization of appropriations for the Council on International Economic Policy—CIEP—and the extension and further amendment of authority for the regulation of exports.

The Department of Defense views all three of these measures as interrelated components of the machinery necessary to manage effectively international economic policy. We have seen once again in recent months that developments affecting our international economic relations and those of our allies may exercise a powerful influence, both directly and indirectly, on our national security. The Department of Defense thus has a vital interest in the effective planning, management, and execution of foreign economic policy.

I would like to comment in some detail on the bill to further amend and extend the authority for regulation of exports, with which the Department of Defense is most directly concerned. First, however, I will discuss briefly our interest in the other two measures.

The Export-Import Bank extension measure would provide a major financial tool to assist American exporters in their efforts to increase their overseas sales. The services the Export-Import Bank offers U.S. exporters in general match those financial services made available by many foreign governments to their own exporters, and permit U.S. exporters to compete overseas on the basis of real economic efficiency.

Expansion of American exports on this basis enhances our national security by helping to provide the means to pay for the now greatly increased costs of our petroleum imports and other necessary raw material imports, so vital to the continued prosperity of our national economy. Further, to the extent that expansion of U.S. exports around the world channels the energy and activities of other nations away from the military area toward economic competition, our national security benefits.

Let me turn to the draft bill to continue the authorization of appropriations for the Council of International Economic Policy—CIEP. As you know, the Council is composed of cabinet-level officials. The Secretary of Defense is one of the members. The Defense Department values the opportunity to make known its views in this forum on questions of international economic policy which affect national secu-

rity. The Council on International Economic Policy brings together all aspects of international economic policy and insures that all aspects of problems in this area are considered during the decisionmaking process. This makes it possible for the President to receive the best and most balanced policy advice available concerning international economic affairs. Continuation of the CIEP, with its small but highly qualified professional staff, would be highly advantageous to the advancement of our long-term foreign economic and political interests, including those interests affecting our national security.

Consider now H.R. 13840, the bill to extend and amend the authority to regulate U.S. exports under the Export Administration Act of 1969, as amended.

It is my understanding that the main purpose of the act and the amendments is to obtain the authority to interpose restrictions on exports to accomplish three fundamental objectives: to protect the national security, to further the aims of our foreign policy, and to maintain availabilty of domestic commodities found to be in short supply.

Let me turn directly to the National Security Control portion of the Export Administration Act of 1969.

The fundamental intent of this act is set forth in section 3, which says that:

> It is the policy of the United States both (A) to encourage trade with all countries with which we have diplomatic or trading relations; and (B) to restrict the export of goods and technology which would make a significant contribution to the military potential of any other nation—detrimental to the national security of the United States.

Although this policy is crystal clear and one whose essential wisdom is beyond dispute, it is nevertheless a very difficult one to administer, the reason being that it requires a continuing series of judgments as to which commodities represent peaceful trade and which are of military significance. These judgments are not easy to make in today's world of total warfare and sophisticated weaponry where industrial might and the state of technology are essential elements of military power. Indeed, to a very large degree, the classic distinction between swords and plowshares is no longer valid, for in a number of important instances the same instrument serves both civilian and military purposes.

The launch vehicle for a peaceful weather satellite is not far different from that used in a military missile; the same technology which builds a computer for an airline reservation system will build a computer to aid nuclear weapons design; some equipment useful for scientific oceanography is equally useful for naval submarines. Almost all of the items we seek to control have this dual use character. The result is that it is not the item itself, but the end user and what he is likely to do with a particular item that determines whether peaceful trade is involved. This is why a more precise definition of "strategic items," which some recommend, is not apt to prove very helpful. Our central concern in each case is whether a commodity purchased for a presumably peaceful end use is likely to be diverted to a military purpose and, if so, how detrimental to our security that diversion would be. When we have to make such determinations where a Communist country is concerned, our difficulties are compounded since our access to these countries to verify the ultimate end use of a commodity is, to say the least, limited.

I think you can see that the task of administering export controls in this particular area is inherently complex, difficult, imprecise and time consuming. This is not because of any complexity in the policy per se, but simply because of the nature of the subject matter with which we must deal in carrying it out.

It is this fact, too, which gives rise to the complex organizational structure through which these controls are administered. You will no doubt have this structure described to you by other witnesses. For my part, I only want to explain how the Department of Defense fits into the picture.

As you know, licenses for the export from the United States of strategically significant items are issued by the Department of Commerce. For those items under international controls, U.S. approval of exports by our allies is given by the Department of State. In both instances, the Department of Defense, along with other departments and agencies, is regularly consulted before decisions are made. It is our role to provide information and advice on the military significance of these transactions and to recommend to the Departments of State and Commerce what, from the standpoint of our national security, we think the decision should be. Besides being consulted on individual cases, we are also called upon for our views as to what end items and what technology should be included on the control lists.

There are, of course, other factors than military security which must be weighed. There are economic concerns having to do with our trade opportunities and our balance of payments; there are diplomatic concerns having to do with our relations with our allies as well as the state of negotiations with one or more of the Communist powers. The decisionmaking machinery and the procedures used take all of these factors into account. As far as Defense is concerned, the current machinery and the current procedures assure that our national security concerns are fully considered in the decisionmaking process.

Our present system of export controls has made and continues to make a substantial contribution to our national security. By effectively restricting the flow to the Communist world of items and related technology of military significance we are delaying to an important extent the achievement of those nations of military capabilities comparable to our own and thereby maintaining a margin of military advantage—a margin which directly contributes to the success of our deterrent strategy.

May I point out, in passing, that it is this element of delay which is the measure of effectiveness of our controls for no system of controlling exports can prevent another nation which has the brains, the resources and the will from ultimately achieving over time any weapons capability it chooses to pursue.

One has only to consider the size of our defense budget and in particular the more than $9 billion we are allocating for defense research and development to sense the extent of the investment we are making to maintain our technological edge in military capabilities.

Our current export control policies and the machinery and procedures which carry them out—by insuring that we do not inadvertently lose through the channels of trade what it costs us so much to obtain through our expenditures on defense—are making a significant contribution to our national security.

For these reasons, the Department of Defense believes that the Export Administration Act has been of real value. We urge that the authority which it gives to regulate exports in the interests of our domestic economy, our foreign policy objectives, and our national security be extended to 1977 and otherwise amended as called for by the measures which you are considering.

We realize that there may be a need to lessen the impact on our domestic economy of a worldwide shortage of scarce commodities and should it pose the threat, to reduce the serious domestic inflationary impact of abnormal foreign demand. Nevertheless, these problems should be dealt with to the extent possible through cooperative measures worked out with the major consumers and suppliers of the scarce commodities. We believe that such measures will serve best to protect our national security interests. We are opposed to the indiscriminate use of restrictive controls on exports, and believe that their imposition should be utilized only as a last resort. We are mindful of our own desire to maintain access to key imports of commodities which are important to our national security. Restrictive controls can be a two-edged sword.

Nevertheless, we believe that there should be clear and explicit authority to retaliate against those who have unreasonably restricted U.S. access to commodities which they supply. This would serve as a clear indication of our belief in an open world economy where the price system serves as the primary mechanism to determine the international flow of commodities. This position is consistent with, and would help further the aspirations of, our country for a secure and orderly world in which our overseas markets may be sure that we are a dependable source of goods, and in which we may be sure that we have access to the foreign goods we require.

A further amendment included in H.R. 13840 would broaden the options available to the Department of Commerce in administering short supply controls by including the use of export fees or an export license auction system. We support this. We believe that this additional flexibility approximates more closely the use of market forces in the regulation of exports.

In closing, I will address the proposal which would require the reporting within 15 days to the Secretary of Commerce of any agreements made by U.S. companies with Communist countries which would be likely to result in the transfer of U.S. origin technical data not generally available. We support this provision. It would provide another safeguard against the inadvertent transfer of this technology by alerting the appropriate government agencies to the proposed transaction in a more timely manner. It would insure a more rapid consideration of the request for the export license and consequently a more rapid decision as to whether it should be granted. Expediting this procedure can only help our exporters.

National security, foreign policy, and economic considerations dictate a continuing need for authority to regulate exports. But these regulations should not and need not impede the orderly expansion of U.S. and world trade. The measures which have been discussed here will provide the Government with some of the tools needed to accomplish that objective.

Mr. Chairman, members of the subcommittee, on behalf of the Department of Defense, I express again our appreciation for the opportunity of appearing before you today to comment on these important measures you are considering.

Mr. ASHLEY. Thank you very much.

Our final witness this morning is Richard E. Bell, Deputy Assistant Secretary of Agriculture for International Affairs and Commodity Programs.

Mr. Bell, we are pleased to receive your statement.

STATEMENT OF RICHARD E. BELL, DEPUTY ASSISTANT SECRETARY OF AGRICULTURE FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS

Mr. BELL. Thank you, Mr. Chairman.

I welcome this opportunity to appear on behalf of the Department of Agriculture in support to H.R. 13840, a bill which extends the authority for the regulation of U.S. exports under the Export Administration Act of 1969, as amended, for 3 years, from June 30, 1974, to June 30, 1977, and which amends the act in certain other respects.

The Export Administration Act and its administration are important to American agriculture. American agriculture is dependent on exports for its growth and its prosperity. The production of 1 out of every 4 acres of cropland harvested in the United States is exported. Some two-thirds of our annual outputs of wheat and rice, and over half of our soybeans, are exported. Over a third of our cotton production is exported. About one-fifth of our feed grain production is exported.

Not only are they important to American agriculture, agricultural exports are also important to our general economy. In fiscal year 1974, ending next June 30, we expect to export $20 billion worth of agricultural products. These exports will account for nearly 20 percent of our total merchandise exports during this period. They will exceed agricultural imports—which includes such products as coffee, tea, cocoa, and bananas—by over $10 billion. The surplus in agricultural trade will go a long way in paying for the imported petroleum and other goods we must import to maintain our standard of living.

We in the Department of Agriculture are primarily concerned with those sections of the Export Administration Act having to do with the application of export controls for reasons of short supply. Under the present act, unless export controls are imposed for foreign policy or national security reasons, export controls are not to be applied except to the extent it is determined necessary (1) to protect the domestic economy from the excessive drain of scarce materials and (2) to reduce the serious inflationary impact of abnormal foreign demand. We understand the congressional intent of this provision is not to require that all the above criteria have been demonstrated before exports may be restricted. Rather, it is intended that the Executive act preventively to protect the domestic economy when it is apparent that in the absence of such action all the criteria will soon be met.

In the case of agricultural commodities or products, there is the additional requirement that export controls must be approved by the Secretary of Agriculture, except for controls imposed for foreign policy or national security reasons. Moreover, the Secretary cannot give his approval of controls on any agricultural commodity or product for any period for which he has determined that the domestic supply of such commodity or product for any period for which he has determined that the domestic supply of such commodity or product is in excess of the needs of the domestic economy. We believe these requirements are fair, workable, and manageable, and should be continued in future legislation.

Authority for export controls, in our judgment, should be considered a "standby authority" to be used with utmost discretion and only after careful study and analysis. As we learned last summer when we temporarily applied export controls on soybeans and related products, the use of such authority can have severe and far-reaching diplomatic and international economic repercussions.

We learned several important lessons from the soybean experience. We learned that we must use restraint in using the authority vested in us by the Export Administration Act. We learned that we needed an ongoing export sales reporting system in order not to take action based on faulty or untried data. We learned that intensive consultation and information exchanges with our international trading partners could be an effective way to determine whether the problem might be resolved in a manner other than resorting to direct export controls.

We feel that we put all these lessons to use in our recent experience with wheat. Several months ago it appeared to some people that we might be headed in the same direction with wheat as we had last summer with soybeans. Despite heavy pressures from many quarters, we acted with restraint and avoided repeating the mistake we had made in soybeans.

In dealing with wheat, we had the advantage of an export sales reporting system for wheat in effect since last summer—first under the authority of the Export Administration Act of 1969 as amended, and more recently under the authority of the Agriculture and Consumer Protection Act of 1973. The data generated under this system, along with other data we had on the U.S. and world supply/demand situations for wheat, enabled us to accurately judge the supply/demand situation. We determined that although the supply situation for U.S. wheat would remain tight until new crop U.S. wheat becomes available later this spring, there was no need for direct intervention in the marketplace to restrain exports. We did, however, take a number of steps to ease the situation.

One of these actions was to shorten the maturity dates for Commodity Credit Corporation wheat loans to farmers. This meant that no farmer would be encouraged to hold wheat from the market because of financial assistance he was receiving from the Government. At the same time, we consulted our international trading partners and sought their cooperation to insure the international situation did not get out of hand. We asked importing countries to defer purchasing of any wheat which might be for stockbuilding purposes. We asked other

exporting countries to take steps to increase the availability of their wheat for the international market. We received cooperation from both importing and exporting countries.

The most significant and measurable action on the part of importers came from the U.S.S.R.—a decision to defer the receipt of a million tons—about 37 million bushels—of U.S. wheat until after the 1974 crop is available in the United States. On the export side, the European Community eliminated its subsidy payment for diverting wheat for livestock feed and announced the availability of more wheat for export onto the international market. The European Community subsequently has made additional wheat available for export—the total quantity now being about 2 million tons—74 million bushels.

This combination of domestic and international actions was instrumental in easing the situation. The first truckload of 1974 crop U.S. wheat was delivered in southern Texas last week. Harvesting will be underway in a few weeks over vast areas of Texas, Oklahoma, and Kansas. The price of wheat in the Chicago market, meanwhile, has declined from a high of $6.45 a bushel last March to less than $4 a bushel earlier this week. Thus, the policy of avoiding export controls has proved to be the course of wisdom.

We in the Department of Agriculture are firmly convinced that the way to correct tight supply situations for agricultural commodities is to let the market work and encourage greater outputs. In 1974, for the first time in more than two decades, American agriculture will be headed toward full production. We expect record crops of both corn and wheat. Soybean production will be second only to the record crop harvested in 1973. The 1974–75 marketing year is expected to be a year of stock building. With this fall's record harvests, prices for U.S. crops should be lower than the high levels of the past year.

Thank you again, Mr. Chairman, for giving me the opportunity to appear before the subcommittee to present our views on the proposed legislation. I will be pleased to attempt to answer any questions you or other members of the subcommittee may have.

Mr. Ashley. Thank you, Mr. Bell.

At the direction of the Chair, the staff requested information from the Office of Export Administration on the disposal of ferrous scrap contingency reserve for the first quarter of 1974. Without objection, their response to this request and related matters will appear following the prepared statement of the Secretary of Commerce.

Mr. Blackburn?

Mr. Blackburn. Thank you, Mr. Chairman. Gentlemen, your reassurances about the operation of the Export Control Act, with regard to preventing shipment of technology which might have military value, might give some people some comfort.

I do not think the true facts justify those statements. You say that the machinery for preventing the shipment of such technology exists. Yet I am reading in various publications that the latest model computers are being sold.

I understand there is a contract out for what they call a fourth-generation computer to be sold. Nobody, but nobody, pretends that you can monitor the use of those computers.

Dr. Shields, could an intercontinental ballistic missile trajectory be computed with an abacus, or do you need a computer for that?

Dr. SHIELDS. Mr. Blackburn, certainly the sophisticated kind of work that would be needed to compute that type of trajectory would require computers.

Mr. BLACKBURN. It is beyond human capability without computers, is it not true?

Dr. SHIELDS. I would assume so.

Mr. BLACKBURN. The development of MIRV's is likewise impossible without the use of computers. It is beyond human capability? Is that a fair statement?

Dr. SHIELDS. I am not completely acquainted with the technology used in the development and construction of MIRV's. It is certainly a sophisticated type of weapon.

Mr. BLACKBURN. We use computers extensively in our own military system, do we not?

Dr. SHIELDS. Yes, we do.

Mr. BLACKBURN. Are either of you gentlemen pretending that you can monitor the use of the computers that are being sold?

Is anyone pretending, for a moment, that you can effectively monitor the use of these computers that are being sold to the Soviet Union so as to prevent their use for military purposes?

Mr. DENT. When these computers are sold, agreements are reached with respect to their accessibility during their period of use. This also involves the opportunity, as well as the necessity, to go in for periodic maintenance, as well as the replacement of deficient components as this develops, through use.

Mr. BLACKBURN. According to your own statement, Mr. Dent, these products have both peaceful and strategic uses. The intent of the purchasers will be what probably will finally determine their use. That is what is in your statement.

Surely you are not saying that using computers for military purposes is prevented just because the technicians who install them and who service them periodically, go by and see that they are still operating? Are you saying this prevents use for military purposes?

I would like to get that on the record, if you really mean that, because we are going to bring in some other experts on computers.

Mr. DENT. In certain installations, agreements are also reached concerning review of operating and program logs, as well as the location. We also would review the maintenance or modification of the equipment. And, if it is highly sophisticated, it certainly must be serviced by the types of technicians which are available in this country.

Mr. BLACKBURN. You still are not saying that you can monitor the use of that equipment. You are saying that you have agreements.

How good are those agreements if the end user does not intend to follow the agreements?

Mr. DENT. You have agreements and you have the opportunity to go and see it on site, take it apart from the viewpoint of maintaining it.

Of course, there is no way to preclude absolutely the possibility that the computer will be diverted to other purposes. However, reasonable, effective controls are established before a license is granted.

Mr. BLACKBURN. By reason of the agreement? Are you satisfied with that, Mr. Shields?

Dr. SHIELDS. Mr. Blackburn, in analyzing the export license requests concerning computers, we do have available to us the best experts in this field.

In general, when we have a particular size of computer in question, that would be released for export only when we feel that it would no longer make a significant contribution to the military potential of the purchaser.

Mr. BLACKBURN. Are you familiar with the works of Antony Sutton? He has made a specialty of research on Soviet technology since the October resolution of 1918. He finds that there is absolutely no indigenous Soviet computer technology.

He finds that up until 1970, all of their computer technology came from IBM, RCA, or a British firm, ICT, Ltd., using American licenses.

Of course, now, Control Data is proposing to sell them the latest model of their computer. Yet we all agree that they could never develop these highly sophisticated missile systems without computers.

Let us move on to a more specific instance here and find just how effective our control system is operating.

We all recognize that ball bearings are absolutely essential for any modern military machinery. Are we going to quarrel over that? I assume we will not.

Mr. DENT. No, sir.

Mr. BLACKBURN. No, we will not quarrel over that. In 1960, the Soviet Union wanted to buy from Bryant Chucking Grinder Co. some 45 ball bearing manufacturing machines. These are the only machines in the world that are capable of manufacturing miniature ball bearings.

Due to activities of the Senate Subcommittee of the Internal Security Committee, this license was denied in 1961. It was found that at least 85 percent of the bearings manufactured by those machines are used by defense industries. Eighty-five percent of the production of those machines goes into defense industries.

In 1972, 164 of those machines were sold to the Soviet Union. Is that the way our Export Control Act is operating? Is that an example of how we are preventing the exportation of potentially useful military hardware? That is more machines of that type than we have.

Mr. DENT. Mr. Blackburn, these machines are also available from Switzerland, which is not a member of COCOM, which, as you know, established the list of items which are not exportable by members to the Soviet and other Communist countries.

Mr. BLACKBURN. Mr. Dent, I wonder why the Soviet Union wasted its time waiting 12 years to buy those machines from us if they could have gotten them anywhere else in the world?

I am going to challenge your statement when you say those machines were available anywhere else in the world. Why did they wait 12 years? Why was it shortly after 1972, when they started getting delivery, that they started testing their MIRV systems?

Is it possible that we are improving our balance of trade but we are going to get omething back in trade that we really do not want, eventually?

Mr. DENT. We will submit for the record information concerning the availability of these machines.

[In response to the request of Mr. Blackburn, the following information was submitted for the record by Mr. Dent:]

DATA ON THE AVAILABILITY OF MINIATURE BALLBEARING GRINDERS FROM SWITZERLAND AND OTHER FOREIGN SOURCES

In 1972 an official of the Commerce Department's then Office of Export Control visited Roulements Miniatures S. A. Bienne (RMB), a manufacturer of miniature ballbearings in Switzerland, as part of a specific investigation of the comparability of miniature ballbearing grinders produced in the United States to those produced in Switzerland. At the firm's plant he observed Swiss-made Voumard model 103 grinders working side-by-side on the same production tasks with top-of-the-line grinders from the United States.

The Department then engaged, with an officer of RMB, in a detailed review of the comparative capabilities of the two grinders, Swiss and American, from the standpoint of production rate, reject rate, quality of end product, merits of respective work fixtures and wheel slide units (the two most important components of the grinders) automaticity and ease of operation, maintenance, reliability, and ruggedness. The RMB official stated that "in all significant respects the production performance, the operating characteristics, and the maintainability of the U.S. and the Swiss Voumard grinders are comparable."

Voumard was apparently willing to sell its most advanced grinders to the Soviet Union. Indeed, a Soviet purchasing official informed the leading U.S. grinder manufacturer in 1972 that 130 Voumard model 103 grinders were already in operation in the U.S.S.R.

Japan and West Germany also make grinders that are adjudged comparable to the best made in the U.S. It was understood that these manufacturers, also—Seiko Seiki and Overbeck—do not hesitate to sell to the Soviets.

It appeared, in sum, that any effort the Department of Commerce made to prevent Soviet acquisition of miniature ballbearing grinders from the U.S. would have been completely ineffective.

Mr. ASHLEY. All members may submit additional questions which we will expect the witnesses to respond to as promptly as possible.

Mr. McKinney?

Mr. MCKINNEY. Thank you, Mr. Chairman. Mr. Secretary, it is very nice to have you here. I have a question on your Council. Do you not feel that it might be helpful to have the Director of the Eximbank on the Council?

Mr DENT. This is the Council on International Economic Policy?

Mr. MCKINNEY. Yes. Since credit is such an integral part of this——

Mr. DENT. That is an independent operation. Of course the Director of Eximbank is available for informal consultation. He is not precluded from an input. I am sure his thoughts are taken into consideration.

Mr. MCKINNEY. Those of us in the Congress, at the present moment, without being too vindictive in our statement, would suggest that the Eximbank is not quite the independent organization that it was designed to be.

In fact, its loans and its policies have become basically an extension of the administration's foreign policy. There is no point in my belaboring the Department of Commerce with this, because I have already belabored Mr. Casey with it, for the record.

It would seem to me that there is an integral tie-in, which makes me move over to Mr. Bell, as to where my real interest lies. I am not a farmer. I come from the Northeast and we seem to pay more for food than Russia.

I am very concerned with a philosophy that I cannot quite understand. Everybody else in the world seems to hold back from this country with very specific requirements, embargoes or oil price agreements, and son on, and so forth, those strategic raw materials over which they have an interlock.

Basically we have seen this in oil. We have seen a little of it in chrome, and so on. We, for instance, I understand now, see that Venezuela thinks that perhaps we better abandon the ferrous scrap limitations if we are going to get Venezuelan oil. At least I understand this is coming our way.

Why does the Commodity Credit Corporation—Mr. Bell—why do they underwrite and finance the sale of wheat to another nation—one of our biggest competitors in the entire world—when that nation is fully and totally capable of paying for that product in almost any form possible, including gold which they have in considerable abundance, compared to ourselves?

Why do we finance the wheat deal?

Mr. BELL. Thank you, Mr. Chairman. You raise a couple of points which I would like to address myself to. In your earlier remarks, you were implying that we, in the United States, have a peculiar advantage in our control over food exports.

We are the dominant trader of agricultural commodities in the world but in no way are we so dominant that our withholding of food supplies from the countries that need them would give us that much leverage.

There are other countries which have food commodities to export. At the present time, there are large supplies being harvested in the Southern Hemisphere in Argentina and South Africa.

Going on to your question about the Commodity Credit Corporation and the credit which was extended to the U.S.S.R., for the purchase of wheat from the United States, I think that the Commodity Credit Corporation's credit program is often misunderstood by a lot of people, in terms of how it works.

The Commodity Credit Corporation's credit program, what it does, it guarantees to the exporter that he will be paid for the products which he sells.

It does not, in any way, subsidize the interest rates. It provides credit on commercial terms. It basically insures that the exporter will be paid.

In granting the line of credit to the U.S.S.R. in the summer of 1972, one has to look at that in a historical perspective. In my judgment, back nearly 2 years ago, those of us working in American agriculture were working with large surpluses. We were working hard, and had been in the past 4 to 5 years before that, to rid ourselves of some of these surpluses which were costing us millions of dollars a day in CCC storage charges and keeping our prices low to farmers.

We basically extended that credit from the Agriculture Department standpoint, to open the market in the U.S.S.R., which we have done in many other places. We have had the same type of program in Japan. We have done it in many areas of Latin America and in Western Europe, if you go back far enough, after the end of World War II.

So our main concern was opening a new market for American agricultural products. Now the Soviet Union, in the 1972–73 year, pur-

chased much more agricultural commodities from the United States than was provided for by the CCC credit line.

It was this additional amount, plus the additional amounts which were purchased by other countries, which tended to create a demand much larger than we anticipated in the summer of 1972.

Mr. McKinney. I have just been handed a note that my time has expired, but we will come back to this and wander through the soybean field next.

Mr. Ashley. Mr. Young?

Mr. Young. Yes. Mr. Bell, it seems to me that what we have done—what we have realized over a long period of time—is the American people have subsidized the American farmer to help him get his prices up to certain levels.

There were times when we even subsidized world market prices to keep the prices up for the American farmer. Now that we have got the prices up on the world market level to where it is advantageous to the American farmer, we have got the American consumer again paying a second time for the higher cost that has been brought on by his tax efforts to help the farmer.

Now we come with a third request from the Eximbank which looks to me like we are asking the American taxpayer again to subsidize higher prices at home. The Soviet wheat deal of course ended up giving about 80 percent of the items in the supermarket an increase in cost.

I am wondering, does the Department of Agriculture have any kind of approach that might, while pursuing an export policy to help the balance of payments, help the price of food at home for the American consumer?

Mr. Bell. Yes, Mr. Young. You mentioned the subsidies which were paid to American farmers. It is true, if you go back over the history of American farm legislation, and American farm policy, that we have had programs to assist the agricultural sector.

I think it is often forgotten, though, particularly by the people in the urban communities, that we no longer are making those subsidy payments to the American farmer. It is the policy of the Department of Agriculture at the present time, to move as much away from subsidies to farmers as we can.

Our basic thrust is to get away from them entirely and let the sector be entirely market oriented. Back in the summer of 1972, or the fiscal year that ended at that time, we paid out in subsidy about $4 billion to our American farmer.

In this year we are no longer doing that. That is part of the taxpayer's money that will no longer be needed. Now you mentioned, again, the sale of wheat to the U.S.S.R.

I want to make it very clear that that was not a sale that was made under the Eximbank. It was a sale that was made under the Commodity Credit Corporation which is authorized by different legislation.

In the field of agriculture, we do, from time to time, use the facilities of the Eximbank credit in order to export agricultural commodities.

We are concerned about the price of food to the consumer.

Although we spend a lot of time talking about the export markets, we realize that the domestic market is our main concern. It is because of this that we took the action during the past couple of years to release

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all of the land that we have in the United States for agricultural production in 1974.

In addition to that—although I am not directly responsible for them—we also do have an extensive program of food stamps and food assistance programs which are funded in the Department of Agriculture and carried out from there.

If my memory is correct, our budget item for that is somewhere around $6 billion in the fiscal year 1975, which compares with the $4 billion that I talked about that we were spending a couple of years ago and which we are not spending at all today.

Mr. YOUNG. Thank you very much.

Mr. ASHLEY. Mr. Frenzel?

Mr. FRENZEL. Thank you, Mr. Chairman. I have some questions of each of the gentlemen, which I probably will not complete because I must comment on some of the remarks of the distinguished gentleman from Georgia.

One of the things that he mentioned was that we were selling fourth-generation computers, and I believe he described them as the latest models, to central European countries.

In fact, this week we had a computer company from my district explaining something about those sales and entering on the record exactly what kind of models they were.

They are fourth-generation, if you count the fact that every time they put a new front cover on the machine it is a new generation. But what, in fact, I think the gentleman was referring to, is a computer whose basic technology goes back to 1963.

Of course the technology prior to release goes back 5 years before that. At least for that particular manufacturer, our policy has not been opened handed. I noticed we have been far too restrictive in that we have lost markets.

The testimony indicated that for us in central Europe, there is no longer much of a computer hardware market because our good friends who are supposed to be part of our COCOM group have pretty well covered the market with computers while we are restraining computers from sale because of security reasons.

I just wanted the panel to be aware that there is a contrary opinion up here as to how we are administering that COCOM operation.

Mr. Dent, you indicated a need to control exports and you talked about the need to restrain the export of ferrous scrap. Every time we make such a restraint, something happens to us.

Does the proposal of the Venezuelans to nationalize our steel companies relate to our restriction of supply to the Venezuelans?

Mr. DENT. I am not thoroughly familiar with all of the reasons behind their proposal, but I am aware of the fact that our largest exports of ferrous scrap have traditionally been to the Orient and have been largely insignificant as far as South America is concerned, so I do not believe that our restraints on exports of ferrous scrap are the basis for the Venezuelan Government considering the nationalization of steel companies.

Mr. FRENZEL. I thank you. I take a contrary view.

In your testimony, on page 11, you indicate that other COCOM countries scrutinize their exports on a similar basis. Exporters that I

talked to tell me that we are the Nervous Nellies of the list, and that we are tougher on our exports than our competitors.

Obviously, I share Mr. Blackburn's and other people's interest in not giving away things that can be of great military advantage to our enemies. I think we do want to be careful, and I do not mind if we err on the side of safety. I am sure we would all agree with that.

On the other hand, when our foreign competitors have zipped into, particularly the central European market, and we are still restraining, I think it may not be the best policy.

Are you convinced, as your testimony indicates, that we are getting full cooperation from our COCOM competitors?

Mr. DENT. Of course, "full" is an overstatement. Perhaps this is a matter of degree. We, traditionally, in this country adhere to our international commitments rigidly.

Part of the procedures in this country involve the interdepartmental considerations which I am sure delay the process more because it is so thorough and does go into the details of the potential impact on our national security. Perhaps we consider this potential impact to a greater degree more so than some of the foreign countries do. But I think that our obligation is to live up to commitments made.

We will be discussing this with the other COCOM members this fall, and we will doublecheck procedures and discuss the whole list with them.

Mr. FRENZEL. I appreciate that. I did not think anyone, however aggressive he may be in the foreign trade field, would want us to relax what we think are good security restrictions.

I think we would rather see it go the other way and try to persuade our friends to make sure that they do not cause jealousy.

Mr. DENT. I certainly agree with that.

Mr. FRENZEL. My time has expired, but I am just getting warmed up and anxious to get back.

Mr. ASHLEY. We will be right back to you.

Mr. Dent, last year the House passed amendments to the Export Administration Act of 1969. Among the amendments was a change in the conditions necessary for the imposition of short-supply export controls.

The language from the 1969 act would require, as a condition for imposition of export restraints that there be an excessive drain of scarce materials and a serious inflationary impact, which is caused by an abnormal foreign demand.

We changed the "and" to "or". We did so because it was made clear to us, during hearings at which the Departments of Agriculture and Commerce, among others, who testified, that they were convinced and they were acting upon an interpretation of legislative intent that construed the necessity of all three of these requirements being present in order for the authority to be exercised with respect to export controls.

Now on page 31 of your prepared statement, you indicate that a committee report, the Senate Committee on Banking, Housing and Urban Affairs, of December 7, constitutes an expression of legislative intent in this respect, despite the fact that that report relates to a bill not passed by the Congress—passed by the House, not by the Senate.

Now I would ask you—and I would ask Mr. Shields—whether there is a different interpretation of legislative intent from that expressed by your Departments in previous years?

Do you really mean to tell me that you are construing, on the basis of report language—not statutory language at all, and in fact, not even relating to a bill that has been passed—are you interpreting this "and" to be "or"?

You go on to say that based upon this report you do not see any need for a change in the law. You are really not going to convince me, at least, and I think this subcommittee, of this position.

You testified in the past that all three conditions have to be met. Now you are saying, on the basis of this report language, that is not so. You can come in at any time, or tell any of our exporters at any time, that you are construing legislative intent either as you did a couple of years ago, or as you now profess to be construing that intent.

I am sure that you see my point. What is the matter with the Congress putting in statutory form, precisely what it means, with respect to these criteria, Mr. Dent?

Mr. DENT. Your question is, as I understand it, what is wrong with Congress expressing its intent clearly?

Mr. ASHLEY. What you are telling me in your statement is that legislative intent with respect to these criteria is, for your purposes, to be found in the committee report of the Senate Committee on Banking, Housing and Urban Affairs dated December 7, 1973. That report, as I have indicated, relates to a piece of legislation that has not been passed into law.

How in the world can you use that as legislative intent?

Mr. DENT. Mr. Chairman, let me ask our attorney, Richard Hull, if he would respond.

Mr. HULL. Mr. Ashley, I certainly do not think we intended to say that a Senate committee report on legislation which was never passed, changes the congressional intent in the present statutory language. What we meant to say, and I thought we had said it, was that we have in the past created our own interpretation of the statutory language. There was nothing in the legislative history of the present statutory language that stressed the fact that all three criteria had to be met. Yet, in the past there were Government witnesses, department witnesses, who took this to be the intent of Congress. We looked at the Senate committee report as telling us, you were wrong in the way in which you interpreted that statutory provision. Congress never intended for you to construe it as requiring that all three criteria be demonstrated before you might act. The word "protect" which was in the statutory language should have told you that you were authorized to act preventively, so to speak, to lock the barn before the cow has escaped.

This is what we are saying when we say that the Senate committee report corrected our previous unduly restrictive administrative interpretation of section 3(2).

Mr. ASHLEY. How in the world can Senate report language relating to a bill that has simply been passed out of committee, never was considered on the floor, how can that have any significance or meaning at all?

Mr. HULL. It has significance to the extent that it comments on statutory language that we were interpreting and it tells us that we were reading it wrong. There is nothing in the legislative history of the 1949 enactment that stresses that all three criteria have to be met. The legislative history of the 1969 enactment on that point consists of reference to an interpretation that the executive branch had put on the statutory language, without approval or disapproval of that interpretation.

Mr. ASHLEY. On page 29 of your statement, Mr. Dent, you indicate that the same legislation that was passed by the House last year, H.R. 8547, and was reported to the Senate with amendments—now I am quoting—"contained other amendments to the act that were undesirable."

It is a fact, is it not, that the Senate report contains a letter from you indicating your support of H.R. 8547?

Mr. DENT. That is correct, and it was the amendments that were later appended that became the problem. We at that time, after it was changed, found it undesirable from our viewpoint.

Mr. ASHLEY. Would you indicate for the record, Mr. Secretary, the commodities for which petitions have been filed and on which you have not imposed short supply controls?

Would you provide that for the record?

Mr. DENT. Yes, sir. The term "petition" that you use is a broad one, since there is no formal application defined. Softwood logs were under consideration. Wheat has been mentioned previously; cotton, also.

Mr. ASHLEY. I am not concerned about the ones that have been under consideration. I am concerned about the letters, if that is the form that the petition takes, from the various sectors of our economy that have expressed interest in short supply controls.

Mr. DENT. This is precisely what I was mentioning. Copper scrap, nickel, aluminum, zinc, petrochemical, waste paper. There may be others which we can add to the list for the record.

Mr. ASHLEY. If you would be so good.

[In response to the request of Chairman Ashley, the following information was submitted for the record by Mr. Dent:]

REPLY RECEIVED FROM MR. DENT

The list of those commodities or products for which there were outstanding requests for export controls based on a review of correspondence within the Bureau of Domestic Commerce since the beginning of 1974 is as follows:

Waste newspaper (petition).
Fertilizer (congressional bills).
Petrochemicals (congressional bills).
Copper bearing scrap.
Nickel bearing scrap.
Aluminum and scrap.
Steel reinforcing bars.
Heavy steel plates.
Oil country tubular goods.
Plastics.
Coal.
Lead.
Phosphate feed supplements.
Soda ash.
Wood pulp.

Mr. ASHLEY. I will be back with additional questions.

Mr. Blackburn?

Mr. BLACKBURN. Just a couple of questions here on the commercial aspects of some of our work, Soviet trade. We are all familiar with the Kama River truck factory that is being built.

Are we to understand that those trucks are not to have any potential military use, Mr. Shields?

Dr. SHIELDS. Those trucks would have potential military use. There are a number of other considerations, I think, that have to be looked at with regard to the Kama River truck plant. Some of these concerns are foreign policy concerns, along with economic objectives.

All of these considerations were taken into account when the question of the Kama River truck plant was considered. I believe on the basis of all these considerations the decision was reached that the project should be approved.

Mr. BLACKBURN. Am I to understand that you, as a spokesman for the Defense Department, feel that you have to take into account commercial considerations in making recommendation, or do you leave that up to the Commerce Department?

Dr. SHIELDS. Mr. Blackburn, the export controls surrounding this procedure provide for interagency discussion in which all aspects of a problem will be reviewed and comments heard from all interested parties. The Defense Department does represent its concern, its feelings, its views, concerning the national security aspects of a particular license application. In this forum, these views are considered, along with the other views that are presented at that time.

Then the decision is made based on all the relevant criteria that are discussed. I might say that the Defense Department does not always hold sway in these hearings, but I can say that we always have a chance to present our points of view, and our points of views are always fully considered.

We talk with many groups. We discuss our problems with the Congress. We do not always have our way. But we do have a fair and complete hearing, and I think that is the important thing with regard to these export trade controls.

Mr. BLACKBURN. I am not thoroughly convinced that just having a day in court is enough if you are going to lose the case. Our clients are not always convinced. When I used to go to court with them, they were not satisfied if they lost the case.

I would like to ask you a question about the commercial aspects of this sort of transaction, Mr. Dent. As you are aware, the Soviet Union does not have free labor. In fact, they have the advantage of nonfree labor among their free citizens and they have the advantage of slave labor among their political prisoners. They use these laborers in their factories.

Are you aware that the Fiat plant that was built in the Soviet Union by the Fiat Co. is now turning out automobiles which in some instances are appearing on markets in Western Europe at a far lesser price than Fiat can build their own car?

Mr. DENT. Mr. Blackburn, I would like to mention that on April 8, of this year, I was at the Kama River truck complex and had an opportunity to go all over it, to go in the only operating unit, which is the

tool shop which houses 2,500 machine tools. Thirty-five percent of these come from foreign countries, including the United Kingdom, Japan, Czechoslovakia, and other Western European countries, in addition to the United States. They are working approximately 60,000 people on that site who have been attracted from all of the 77 republics. They have been attracted there by material benefits which they cannot get in other places in the Soviet Union. Their average age is 23, and it is a remarkable sight to see what is being done and to anticipate ultimately to have 600 foreigners in residence as the various elements and components of this projcet, which as been brought abroad, is started up.

Mr. BLACKBURN. Did you talk to any of these laborers who came in?

Mr. DENT. Unfortunately, I did not have the capacity to communicate directly with them because of the language barrier.

Mr. BLACKBURN. Let me suggest that you have the same view of the Soviet Union that I did. They make sure that you do not spend too much time commingling with the citizens because you might not get the same language that the official guide wants you to hear.

I am sure you are not pretending that these people who are working there are free to strike for better wages, or that they have a free trade union that can negotiate for better working conditions. Are you saying that?

Mr. DENT. I am saying that we spent a day there and I had an opportunity to see them, and we had the opportunity also to meet with the executive director, who replied to every one of our questions without hesitation relating to productivity, hours, and so forth.

You are correct. I would not believe that there are labor unions there as we have in this country. But there certainly was an indication that people were working with some commitment and interest in what they are doing.

Mr. BLACKBURN. My time has expired, but I want to make this one last observation. I read in a publication yesterday where a Soviet tractor is being sold in New York State at a price of some $7,550, and a comparable American tractor sells at $15,000.

Does that threat of nonfree labor in compeition with American labor bother you at all in the transfer of this kind of productive equipment and technology?

Mr. DENT. It not only bothers me personally, but bothers the Government. As far as the trade agreement with the U.S.S.R. is concerned, we have the right to assure that our markets are not disrupted abnormally by their imports, and we would anticipate being able to evaluate the production costs of their imports by comparing the costs of each product to the costs of the same product produced in third markets, such as Western Europe.

If we find that the prices at which the U.S.S.R. offers to sell its products to the United States do not reflect reasonable costs, or that for any other reason such imports are disrupting our domestic markets, then action can be taken under the agreement to restrain these.

Mr. ASHLEY. Mr. McKinney?

Mr. MCKINNEY. Thank you, Mr. Chairman.

Mr. Shields, I do have to say I am sort of amused in listening to the conversation here, because most of my business friends would tell me

that the Pentagon runs the Council. This is one of their biggest problems, particularly in highly technical areas.

Here we seem to have great fear that the Pentagon does not have enough to say within the Council. That was not a question as much as it was a statement.

Mr. Bell, what was the percentage rate paid by the Russians on the wheat deal, the interest rate?

Mr. BELL. The interest rate?

Mr. MCKINNEY. Yes.

Mr. BELL. It varies as you go over time. At the time that the first shipments of grain were made to the U.S.S.R., some time in the summer of 1972, if I rememeber it correctly, the interest rate was about 6¼ percent That has been progressively increased, and now it would be 10½ percent.

Mr. MCKINNEY. Are we about to sell soybeans to Iran? Are we in the process of selling soybeans to Iran, $180 million worth?

Mr. BELL. If we are, I am not aware that we are going to sell $180 millon worth of soybeans to Iran. We basically sell oil, soybean oil, to Iran. I am not aware of any sale of that size.

Mr. MCKINNEY. Do we finance that industry?

Mr. BELL. No, we would not. CCC credit does not apply on the export of soybeans.

Mr. MCKINNEY. Will we ask the Eximbank to do it?

Mr. BELL. I am not aware of any request from the Eximbank for approval for such a sale, no.

Mr. MCKINNEY. Has the Eximbank done any financing for you of agricultural products recently, such as cotton?

Mr. BELL. I am not aware of anything recently on cotton. We have had cotton move under Eximbank credit to Asian markets. All credit on agricultural export products has been restrained here in the last year and a half.

Mr. MCKINNEY. We would certainly hope so. Gentlemen, I have a hard time since I have to go into a statement, because I cannot try to prove a point. I am known as a free trader. I approve of the Eximbank and I fight for them before the House.

I think we are going to lose the whole kettle. I think we are going to lose the whole kettle because, quite frankly, the Department of Agriculture in particular has not set a level of domestic necessity for raw materials. I think that the Department of Agriculture and the Council better get down and set a level of domestic necessity, and watch the exporting of raw materials because the American people—and I want to tell you, I come from an internationally oriented district where people believe in world trade, where our jobs come from exporting highly technical products.

They are not going to go into their stores and see a letter from Levi Strauss stating quite frankly that the price of blue jeans is going to almost double and they will be in short supply because there is no cotton in the country. They are not going to accept subsidizing interest rates of agricultural products. They are not going to accept having Iran, for instance, get together with the oil companies and rob us blind for oil when we know perfectly well that there are only a few nations that could even come close to supplying what Russia wants in wheat—

Canada, Australia, and the United States, perhaps maybe, perhaps Argentina, although I doubt it—and see our Government turn around and give Russia wheat at 6 percent, see the price of bread soar, the price of wheat soar, see jobs laid off, bakeries go under, when we could have simply turned around.

The American taxpayer is asking, why do they have to pay more in the store and turn around to subsidize the foreign nations?

He sees the oil companies getting together and saying, you cannot have any oil unless you pay $12 and $15 a barrel for it. He is beginning to ask his Congressman, even from a district like mine, why do we not get together with these other nations and say, you cannot have any wheat unless you give us gold.

This is the kind of thing that is going to on the floor of the House of Representatives destroy the Eximbank, and I think then, if the Eximbank goes, then the Commodity Credit Corporation goes, and a lot of these other things go, and they are surely going unless we do something fast. Then we are going to have the greatest recession this country has ever seen. We are really going to stop the world and get off. This is not an argument that you can win when, in my district alone, you have factories laying off because they cannot get zinc. You have factories laying off because you cannot get chromium. You have factories laying off because you cannot get copper. I can name them for you, Carpenter Steel, Bridgeport Brass. I can go through the whole list of the letters that are in my files.

These men are going home without a paycheck. At the same time, they see their tax dollars subsidizing these sales to other nations. They do not mind if their tax dollars are going to subsidize that is a sale of a sewing machine or a truck. Anybody can sell Russia a truck factory. This business of the Kama truck factory is nonsense. The Italians, the British, the Japanese, they would like to have a free run, and this is what we would normally have given them.

But there are certain products and there are certain technologies that this country has a lock hold an, with very few other nations in the world. The American taxpayer is not going to tolerate subsidizing the sale two ways, subsidizing it by paying more in the grocery store and subsidizing by underwriting the interest rate.

You know damn well that we are going to pay cold, hard cash for every drop of oil that we get, and I would ask Mr. Dent, the Secretary, if somehow in the record he could tell us why we should export one drop of petroleum, one drop.

Mr. DENT. Very easily. We export petroleum to Canada and Mexico. About 66 percent of our exports goes to those two countries. From Canada we receive about 90 to 1 for everything that we export there. Our exports are largely because the location of particular refineries in this country makes it more economical for these countries to supply particular areas of their territory from U.S. sources across the border than from their own refineries which are located much further away.

The benefits that we get from the trade with Canada far outweigh the small amount that goes back in return. The same is true to a lesser degree of our exports to Mexico.

Mr. McKINNEY. I am aware of that and I am delighted that you have that in the record.

Do you know one of the main reasons that the average American citizen walking around the streets of this country did not believe that there was a fuel crisis was because he saw us exporting oil and he did not know why we were exporting it, and we did not know what we were getting in return?

This is the kind of thing that is underpinning the entire international trade structure of the U.S. Government. Somehow this has to go out to the people. You people are going to have to start selling the idea of international trade. The unions are against you. Everybody is against you and you are in trouble.

Mr. ASHLEY. Mr. Frenzel?

Mr. FRENZEL. Mr. Dent, on pages 34 and 35 and so on of your testimony, you talk about the various ways in which you might restrict exports and the various opportunities that are open to you.

If you decided to go to a fee system, or an auction, or something like that, what weight would you give to existing contracts?

You recall when we put the squeeze on squeezed products like cotton oil and bean oil, we had to cancel, abrogate contracts. This caused some of our domestic companies and some of our trading partners a good deal of pain and righteous indignation.

Do you have a plan to take that in account?

Mr. DENT. Yes, sir. We certainly learned from the experience at the time of the soybean action last summer that money problems resulted from cutting across contracts. If you will notice, when action was taken in the ferrous scrap area, we did not cut across contracts. We permitted contracts to be fulfilled as written. We negotiated an extension with the Japanese, but all those contracts were honored.

One of the reasons that we had originally been concerned about the interpretation of these three prerequisites occurring at the same time was in order to avoid a buildup of an order position where we would have to cut across contracts.

Mr. FRENZEL. That is the other factor. As soon as things get tough, everybody files orders. They may be legitimate or bogus orders.

Mr. DENT. We are alert to possibilities of controls and will do all we can to avoid having to cut across contracts. We think that this is an essential requirement, and only where it is absolutely in the national interest to do so will we take such action again. I should point out, that as a result of their experience with the soybean controls, most if not all exporters are protecting themselves by insisting on an escape provision in their contracts with foreign purchasers, to absolve them from liability for damages, in the event they become unable to perform because of restraints on U.S. exports.

Mr. FRENZEL. I am pleased to hear your statement. I think that members of this subcommittee believe that you have some broad powers to impose certain reporting requirements under section 7(a) of the act.

But I am wondering if we do not have some kind of responsibility to find out from you exactly what you do intend to do, or whether we should not give you perhaps a better set of operating guidelines than that which appears in the act. I notice you have not asked for any. Do you want to change a word here or there, and then set your own standard?

What I am worried about is that you will set some sort of onerous reporting requirement, or licensing fees, and so on. If so, are you not

going to tell the marginal exporter that it is not worthwhile to do export business?

For that reason, I personallly would feel a lot better if I knew exactly what you were going to require in the way of reports, so that the reports not have a restraining effect, particularly to the small exporter and the marginal exporter.

Mr. DENT. The only reason for requiring these anticipatory reports is for us to better evaluate what the outstanding demand and prospective shipments are, and to weigh this against the domestic demand on the one hand and the domestic supply on the other hand.

With this useful type of information, intelligent decisions can be made. I share your view that it is unfortunate to discourage an entrepreneur from providing economic opportunity to others. But on the other hand, if we are overexporting an item which is essential to our economy, it would be better that he find another market to serve than that particular one at that time.

Mr. FRENZEL. I thank you. My time has expired.

Mr. ASHLEY. Let me say to the members of the subcommittee that tomorrow is going to be the last day of hearings. Our witness will be the counselor of the Department of State, and we will be meeting at 2 o'clock tomorrow afternoon to take his testimony, very important testimony.

Mr. Dent, we have had testimony given to the subcommittee indicating that the Department of Commerce has invoked a fourth criterion, as well as the other three, with respect to short supply, which we were discussing earlier in the course of denying petitions to impose controls, indicating that the shortage and the inflation due to foreign demand must have a pervasive effect upon the national economy. Is this a fact?

If it is, on what legislative language or expression of intent is this based?

Mr. DENT. We have been abiding by the three prerequisites in the legislation.

Mr. ASHLEY. As I say, we received direct testimony from various sectors of the economy, representatives of various sectors of the economy, saying that they had been told by your Department that their situation, that there must be a pervasive effect on the national economy if their plea for consideration for export controls is to be given favorable consideration.

Mr. DENT. That was a statement, a personal opinion, I would presume by somebody who had misinterpreted. Our objective has been to administer the act as it has been passed by the Congress.

Mr. ASHLEY. What you are saying is that there is not any such criterion and that the plight of, let us say, whether it be the aluminum recyclers or the paper recyclers, whoever it may be, that their particular plight need not be so great as to represent a pervasive effect on the national economy.

Mr. DENT. I am saying that we apply the criteria that have been established in the legislation and apply it in each case. The law is written to state inflationary effect, and the word "pervasive" is not in there. But we do look at the inflationary effect on the economy. That is an accurate interpretation of the law.

Mr. ASHLEY. On pages 19 and 20 of your statement, Mr. Dent, you indicate—I am quoting—"Export expansion is vital to the Nation's

economic health and export controls should only be imposed when they are absolutely necessary."

Would you say that the Government of Japan and the members of the Common Market view export expansion, their export expansion, as vital to their economic health?

Mr. DENT. Absolutely.

Mr. ASHLEY. We have received testimony that all of these nations, and Canada and others, have longstanding policies of export control with respect to critical raw materials such as ferrous scrap. The other principal wheat-producing nations reportedly have that commodity under export control.

Under the circumstances, what export limitations would you consider to be absolutely necessary?

Mr. DENT. Mr. Chairman, as you know, subsequent to the problem which arose with respect to petroleum, the administration has suggested that negotiations under the Trade Reform Act of 1973, which previously passed the House and which is presently pending before the Senate, be expanded to involve the negotiation of U.S. access to the supplies of foreign countries.

In trade negotiations we previously had concentrated on access to the markets of these countries for U.S. products. Recent experience indicates that a statement of general principle should at least be negotiated to govern the activities of those who are suppliers. In suggesting this, we recognize that we are not only major agricultural suppliers, but we are also major purchasers, so we look at it from both viewpoints.

Mr. ASHLEY. In line with Mr. McKinney, whose statement I hope will be taken seriously, if we do not get some kind of further definition of what is meant by absolutely necessary, we will provide it. If the subcommittee does not, it will be provided on the floor of the House.

In this regard, a final question. Earlier in the hearing testimony was received from a representative of the Aluminum Recycling Association suggesting criteria to be taken into account in determining whether or not to impose short supply controls, together with suggested procedures for administering short supply export controls.

If you had an opportunity to review these suggestions, Mr. Secretary, I would appreciate it if you would supply for the record your comments with respect to these suggestions.

Mr. DENT. We will be glad to.

[In response to the request of Chairman Ashley above, the following letter was received on behalf of Secretary Dent from Karl E. Bakke, General Counsel of the Department of Commerce for inclusion in the record:]

GENERAL COUNSEL OF THE
DEPARTMENT OF COMMERCE,
Washington, D.C., May 13, 1974.

Hon. THOMAS L. ASHLEY,
Chairman, Subcommittee on International Trade, House Committee on Banking and Currency, Washington, D.C.

DEAR MR. CHAIRMAN: This is in response to your request to Secretary Dent for his views on an amendment to the Export Administration Act of 1969, outlined by Mr. R. M. Cooperman, Executive Director of the Aluminum Recycling Association ("ARA") in his testimony before your Subcommittee on April 29, 1974.

As we understand this proposal, the current short supply provisions of the Act would be amended in four respects. *First*, there would be a more definitive set of general policy guidelines underlying the exercise of export control authority in short supply situations. *Second*, there would be established a list of specific economic criteria that, when found to exist with respect to exports of a given commodity, would require the Secretary of Commerce to set in motion formal export surveillance procedures and international consultations regarding such commodity. *Third*, there would also be established additional economic criteria which the Secretary would be required to take into account in determining whether or not restrictions on the export of the commodity should be imposed. In the event these criteria were met, and the Secretary failed to act, he would be required to report to the Congress his reasons for not doing so. *Finally*, procedures would be established to provide interested parties an opportunity to petition the Secretary and to present views concerning commencement of export surveillance or the imposition of export controls.

We have no disagreement with the general policy guidelines outlined by ARA, or with the economic factors which ARA considers to be relevant in determining whether or not export surveillance or controls should be imposed. In fact, these guidelines are consistent with present policies of this Administration towards short supply controls and most, if not all, economic factors listed by ARA are currently considered in arriving at determinations whether or not to monitor exports of commodities in tight supply and/or to restrict exports of such commodities. However, we believe that it would be inappropriate for such detailed guidelines and such a lengthy list of economic factors to be spelled out in the Export Administration Act itself. Rather, if the Congress deems it necessary or desirable to express its intent that such guidelines and such criteria should be taken into account by the Secretary in making short supply decisions, we believe it would be preferable to reflect this intent in the legislative history.

In this connection, I am enclosing for your information a copy of Secretary Dent's memorandum of May 10, establishing procedures for coordination of short supply policies. You will note that the factors listed in paragraph A of this memorandum as being relevant to short supply decisions are quite similar to those outlined by ARA.

However, we do find objectionable the ARA proposal for procedures governing administration of the short supply program.

While we have never objected to, and indeed have welcomed, the submission of views by interested parties concerning commodities in tight supply, we believe that the establishment of mandatory formal procedures for submission of these views could have a disastrous impact. For instance, if provision were made for public hearings upon petition by an interested party, such hearings would trigger massive speculation in the market as to the likelihood that export controls were about to be imposed. A rush to export would ensue during the thirty or sixty day period prior to completion of the hearing procedures and announcement of the Secretarys' decision, which could cause the supply situation to deteriorate to the point of requiring export controls which would otherwise not have been necessary.

Also, the ARA proposal assumes that the factors listed for consideration in such formal proceedings, which are stated in subjective terms, are somehow capable of objective measurement. If ARA contemplates that these factors would be expressed in quantitative terms (i.e., an increase in exports will be considered "large and rapid" if exports have increased by X% in the last month), then ARA is proposing, in fact, a trigger formula which Mr. Cooperman quite rightly recognizes on page 9, paragraph 6 of his testimony to be totally undesirable. Yet, in the absence of such quantitative definitions, it is clear, that in any given situation, these factors although relevant to a decision, may lead two reasonable men to a different conclusion. This is because, in the final evaluation of a tight supply situation, reasonable men may attach different weight to any given factor, or to the extent that such factor is outweighed by another. In short, after all these factors are considered, the final decision would, and properly should, be left to the judgment of the person charged with administering the program.

I hope that these comments will be useful to your subcommittee in its deliberations on this issue.

Sincerely,

KARL E. BAKKE,
General Counsel.

THE SECRETARY OF COMMERCE,
Washington, D.C., May 10, 1974.

Memorandum to:
Under Secretary Tabor
General Counsel Bakke
Assistant Secretary Dobbin
Assistant Secretary Ancker-Johnson
Assistant Secretary Jones

Subject: Establishment of Procedures for Interagency and Interdepartmental Coordination of Short Supply Policies.

In the twenty years prior to last summer, "short supply" situations within the ambit of our export control legislation rarely arose, and never involved a broad range of commodities. Accordingly, the mechanisms for policy decisions by the Executive Branch in such situations were approached on an *ad hoc* basis.

Beginning in June of last year, a variety of factors has led to widespread commodity shortages in the U.S. and abroad, and it appears likely that such shortages may recur periodically in the foreseeable future.

Against this background, it is clear that the development of Administration policies to deal with such shortages should be more formalized than it has been in the past.

Accordingly, I herewith establish within this Department a high level group to coordinate the expertise which our own resources can contribute in dealing with short supply situations. This group, the Department of Commerce Short Supply Committee, will be chaired by the Under Secretary and composed of our General Counsel and the Assistant Secretaries for DIBA, Science and Technology, and Economic Affairs. The functions of the Committee would be to:

A. Develop for my consideration an enumeration of particular factors that, among other considerations, are relevant to establishing the factual criteria for imposing short supply export controls pursuant to Section 3(2)A of the Export Administration Act. Such criteria would include, but not be limited to: impact of the shortage on U.S. employment; impact on the industry directly affected as well as on industries indirectly affected at later stages of processing; extent to which there are substitutes for the commodity in question; extent and cause of the foreign demand involved; extent of availability of the commodity from sources outside the United States; volume of U.S. exports of such commodity expressed in absolute terms as well as in terms of increases over prior years and as a percentage of domestic production and domestic supply; disparity, if any, between the domestic and the world price of such commodity; and impact of foreign demand on domestic prices for the commodity and related commodities and on the domestic economy in general.

B. Establish an "early warning system" for identifying commodities that appear to be approaching a short supply situation.

C. Analyze such shortages as they begin to develop and recommend courses of action to be taken to alleviate or moderate the effects of such shortages, including measures which might be taken by this Department or other agencies of the Government, thereby avoiding the need for export controls or enabling such controls as may ultimately become necessary to be less restrictive than would otherwise be the case.

D. Evaluate criticisms by an industry and/or Congress of the manner in which short supply controls on exports of a particular commodity are administered.

The Under Secretary will convene the Committee forthwith, and submit to me promptly your collective recommendations for further refinement and implementation of the foregoing directives.

FREDERICK B. DENT,
Secretary of Commerce.

Mr. MCKINNEY. Mr. Chairman, may I thank the gentleman, and reiterate something?

What both of us are trying to say is, it appears to me from where I see, gentlemen, we are going into world trade—I could use some other analogies—I would say under the Marquess of Queensbury rules. We are continually waiting for our other trading partners to live up to this, and we know they do not, and to stop blackmailing for all these products, which they do not.

It reminds me of the little country boy who has never had an education, who finds himself in the middle of the New York Stock Exchange trying to find his way out. We do not use the muscle that makes American industry great.

Mr. DENT. Mr. McKinney, you are absolutely right. We maintain an overvalued dollar from World War II up until this administration confronted the problem that we face in international trade, and as a result of actions taken, we increased our exports last year by 42 percent. We had a swing of $8.1 billion in our trade account from a deficit of $6.3 to $1.7 billion.

The reason we are committed to see the authorities that have been requested in the trade bill are primarily to enable us to create the jobs in America that are now being created in foreign countries for those who have had greater access to markets than we have been granted, and to give the types of nondiscriminatory treatment that certain countries achieve at the hands of all other trading partners but the United States.

Mr. FRENZEL. Mr. Chairman, I am going to ask a question for the record and ask you to respond for the record. I address it to Mr. Dent and Dr. Shields.

Has this country ever shipped any material to Russia which gives them the advantage of a technology or a process which is not otherwise available to them? Do we contemplate any such shipments?

Dr. Shields, on page 9 of your statement, you indicate the need for authority to retaliate against countries which restrict supplies.

Does this mean that when we restrict exports, like ferrous scrap or agricultural oils, other countries are justified in retaliating against us?

Dr. Shields, you spoke of the export criteria of "dual use." If foreign trade takes place at all, exports to Russia or other nonmarket countries must do them some good.

Is there any reason to believe that if we do not sell an old computer to the Poles, the Russians will not be able to continue their military development?

Have we ever shipped anything to Russia that would give them technology not otherwise available to them?

Thank you.

[In response to the request of Mr. Frenzel, the following information was received from Mr. Dent and Dr. Shields for inclusion in the record:]

REPLY RECEIVED FROM MR. DENT

TECHNOLOGY EXPORTS TO THE USSR

The Department of Commerce has not licensed any technical data to the USSR that are available from other sources and/or that would contribute significantly to their military potential in a way that would be detrimental to national security. Such exports would be contrary to our policies and the language of the act.

REPLY RECEIVED FROM DR. SHIELDS

In response to the question: When we restrict exports, like ferrous scrap or agricultural oils, are other countries justified in retaliating against us? Obviously controls restricting the export of commodities in short supply can be a two edged sword. It points out the basic necessity for having international coopera-

tion and consultation whenever there are tight supply-demand situations for internationally traded commodities which impact on domestic economies and their price levels. That is why the administration is requesting in one of the amendments to Section 3 of the Export Administration Act an express declaration of the preferability of international rather than unilateral solutions to problems of world shortages.

Nevertheless, if a satisfactory solution cannot be reached, the President should have the authority to retaliate through the use of export controls against a nation, or group of nations which have *unreasonably restricted* United States access to their supply of a particular commodity.

In response to the question: Has this country ever shipped any material to Russia which gives them the advantage of a technology or a process which is not otherwise available to them? There is no unequivocal answer to this question. In the sense that, as I pointed out in my statement, "no system of controlling exports can prevent another nation which has the brains, the resources and the will from ultimately achieving over time any weapons capability it chooses to pursue," we have not shipped anything to Russia which would not be available to them if they chose to make the effort to obtain it otherwise. On the other hand, every sale of a process or a technology represents a gain to the purchaser and must be presumed to be advantageous to him. From this standpoint, almost any sale of U.S. products or technology to Russia even when other countries also could supply similar items may provide something not otherwise available, perhaps only in terms of cost, reliability or follow on support. The crucial factor is the extent to which withholding of a U.S. process will restrict or delay the development of the military potential of another nation which would be detrimental to U.S. national security. The availability of an item from other sources is one consideration in determining how significant a delay can be imposed.

In response to the question: If we do not sell an old computer to the Poles, the Russians will not be able to continue their military development? With regard to selling computers to Eastern Europe—whether old or new—we use the same criteria. When we are persuaded that an item will not contribute significantly to the military potential of the Warsaw Pact nations, we do not object to its export. This involves assuring ourselves that the equipment is going to a civil end-user for peaceful purposes and under circumstances where diversion of the equipment to military purposes is regarded as unlikely.

Mr. ASHLEY. Gentlemen, we thank you very much for your valuable testimony this morning.

The subcommittee will stand adjourned until 2 p.m. tomorrow afternoon.

[Whereupon, at 12:20 p.m., the subcommittee adjourned, to reconvene at 2 p.m. on Thursday, May 2, 1974.]

INTERNATIONAL ECONOMIC POLICY

THURSDAY, MAY 2, 1974

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The subcommittee met at 2:25 p.m., pursuant to notice, in room 2128 Rayburn House Office Building, Hon. Thomas L. Ashley (chairman of the subcommittee) presiding.

Present: Representatives Ashley, Rees, St Germain, Blackburn, McKinney, and Frenzel.

Mr. ASHLEY. The subcommittee will come to order.

Today we conclude our hearings on pending international economic policy legislation. Our final witness is Hon. Helmut Sonnenfeldt, counselor for the Department of State.

Mr. Sonnenfeldt, we have not had the privilege of your appearance before the subcommittee before. I am delighted to welcome you. For the benefit of members who may not be acquainted with your background, I wonder if you would be kind enough to indicate briefly your experience over, let's say, the last 4 or 5 years, and then proceed with your testimony.

STATEMENT OF HON. HELMUT SONNENFELDT, COUNSELOR, DEPARTMENT OF STATE; ACCOMPANIED BY SIDNEY WEINTRAUB, DEPUTY ASSISTANT SECRETARY FOR INTERNATIONAL FINANCE AND DEVELOPMENT

Mr. SONNENFELDT. Thank you very much, Mr. Chairman.

I have recently returned to the State Department after 5 years on the staff of the National Security Council. Beginning in 1969, my responsibilities there were to provide staff assistance to Dr. Kissinger in his capacity as Assistant to the President for National Security Affairs in the field of European affairs and East-West relations, and I returned to the State Department, having previously served there for a number of years in the Bureau of Intelligence and Research, working mostly on Soviet foreign policy. I returned to the State Department in January as counselor to the Department.

Mr. Chairman and gentlemen, I am pleased to have the opportunity to appear before this subcommittee to testify in support of the bill to amend and extend the Export-Import Bank Act of 1945, with special reference to the Bank's role in our relations with the Soviet Union and Eastern Europe.

33-208—74——53

Mr. Casey and other administration witnesses have discussed in detail the operations of the Export-Import Bank as well as the impact of those operations on our economy and foreign trade position. My comments today will address the political context of our economic relations with the countries of Eastern Europe, and especially the U.S.S.R. The Export-Import Bank is, of course, an important instrumentality in the conduct of those economic relations.

When this administration took office in 1969, one of its early decisions was to undertake a detailed review of our relations with the Soviet Union and to devise a comprehensive strategy for our policies toward that country. At that time, we were deeply involved in a conflict in Asia in which the U.S.S.R. supported our opponents. There was a legacy of more than two decades of intermittant tension in Europe and, indeed, at that very moment we were experiencing one of the periodic crises on the access routes to Berlin.

At that time also there were serious questions about the emerging strategic relationship with the Soviet Union. The SALT negotiations which had been in preparation during the Johnson administration had not been started because of the invasion of Czechoslovakia and the incoming administration wanted to undertake a full study of all the factors involved in that complex subject.

The President was under considerable pressure to begin his term with an early summit conference with Soviet leaders but he decided instead to consult initially with our European allies on the whole range of East-West relations. Moreover, the President felt that summit diplomacy between the "superpowers" required meticulous preparation if it was to yield beneficial results.

Similarly, there were numerous suggestions at that time for a more active trade policy toward the Soviet Union, as well as other Eastern countries, but again it was the administration's judgment that this had best await a clearer view of how overall relations with the U.S.S.R. would develop. In sum, the administration's approach to Soviet policy was one of great caution.

Following the various policy reviews that were put in train in the early months of 1969, the administration began an effort to develop a pattern of actions designed to bring about a normalization of relations with the U.S.S.R. on a broad front. This was a somewhat different approach from that often advocated in the past. Rather than seeking out individual areas for possible negotiation, the strategy was to try to move ahead in a coordinated way on several matters.

Although an oversimplification, the goal of our policies was summarized in the phrase "negotiation rather than confrontation." I say oversimplification because inevitably in a relationship as complex as that between these two "superpowers," burdened as it was with tension and hostility and with fundamental differences in political systems and values, there was bound to be, for a long time, elements both of accommodation and hostility, of cooperation and rivalry, of negotiation and confrontation. The hoped-for objective for the next several years was to enlarge the positive areas and to reduce the sources of tension and enmity. The process we envisaged was based on the recognition that a war between the two most powerful countries on Earth would be disastrous and that we were therefore dutybound to seek relations of increasing stability.

It was with these basic considerations in mind that the administration turned its attention to a negotiating effort, focusing first on the most acute problem of Berlin and the most fundamental issue of strategic arms control. Gradually, as progress was made in these and other areas, the negotiating front was broadened to include a wide range of bilateral issues which were not individually in themselves of great significance but which could have a cumulative effect of increasing the momentum toward more normal relations.

It appeared that by early 1971 the Soviet leaders were inclined to fall in with this approach. Later that year, with the Four-Power Agreement on Berlin, intensive negotiations on a Vietnam settlement and signs of advance in the SALT negotiations, the basis seemed to be emerging for a fruitful encounter at the summit. It was only then that the administration undertook to examine the opportunities for increased trade and more normal economic contacts with the U.S.S.R.

In that particular regard, the administration had not been inclined to share the frequently advanced view that intensified trading relations would stimulate advances in political and security relations. Its judgment was that if trade was to become a major element in the emerging United States-Soviet relationship, it should be embedded in a more overall relationship.

One of the reasons for this approach was the belief that trade should not be subject, as it had been on occasion in the past, to sudden fluctuations in political relations. We felt, also, that in an environment of improving political relations trade could indeed serve to reinforce those relations. I may say that the cautious administration approach of those years was often criticized, especially in the business community, because we seemed to be denying ourselves access to markets in which several of our major allies were beginning to make substantial inroads.

The 1972 summit saw the conclusion of the first major agreements on strategic arms limitation and of a series of bilateral agreements for cooperation and exchange of experience and information. In addition, the President and General Secretary Brezhnev signed a statement of principles in which were set down certain rules of conduct which, if observed, would provide a framework for more normal and stable relations. Among the agreements was one to establish a joint commercial commission as a mechanism for developing orderly economic relations.

As I indicated, the bilateral agreements were not of major significance in and of themselves. Nevertheless, it was our hope that by establishing contacts in numerous fields of activity the base of support in both countries for more constructive relations might over time be broadened and deepened. The Secretary of State has in some of his discussions of United States-Soviet relations referred to the creation of "vested interests" among various groups, that is groups who would come to feel that they had more to gain from cooperation than from isolation and hostility. This notion is, of course, particularly applicable to the field of economic contact.

It is worth noting that even at the summit of 1972, where the substance as well as the atmosphere of United States-Soviet relations showed measurable change for the better, there was no specific agreements yet on trade and economic relations. The only agreement reached was procedural—establishment of the joint commission.

In the following months, a series of agreements were reached with respect to trade. They were designed to provide a framework and the rudimentary instrumentalities whereby our free-enterprise economy might enter into mutually advantageous contact with the nonmarket economy of the Soviet Union. One of those instrumentalities was the Eximbank, whose facilities were made available for trade with the U.S.S.R. by the President in the fall of 1972. It was not anticipated at the time that the facilities of the Bank would come into rapid or massive use and this was borne out by subsequent developments.

There was thus a dual approach: First, trade with the U.S.S.R. was to be part of a broad normalization of relations across the whole spectrum of political, security, and bilateral relations; and, second, the trading and economic relationship itself was to develop under a wide umbrella of governmental agreements which would permit our companies to proceed in an orderly way.

The administration sought to fulfill the proper role of government. It was not to supplant the business judgment of our firms but to provide a framework in which those firms would not be operating at a disadvantage vis-a-vis their competitors in other countries and the state-controlled economy of the U.S.S.R. In addition, the administration has of course remained very conscious of potential security implications of increasing trade and retains the means of exercising control in that respect.

I realize that your specific concerns are with the Export-Import Bank and the bill to amend and extend its act. But I thought that my comments would beof greatest use to you if they focused on the administration's basic approach toward the U.S.S.R. It should be clear from what I have said that we believe that the Bank's facilities are a major component of our Soviet policies as they have been evolving ove the past several years. I therefore support strongly the extension of the Bank's authorization and of its continued use by our Government in promoting mutually advantageous commercial relations between the United States and the Soviet Union.

Thank you, Mr. Chairman.

Mr. Ashley. Thank you very much, Mr. Sonnenfeldt.

The subcommittee, as you perhaps know, has received testimony from other Members of Congress. Among the questions raised by these Members who have appeared here are the following:

What evidence or future assurance do we have that we will receive an immediate quid pro quo as a result of increased trade with the commercial fulfillment of such transactions?

Mr. Sonnenfeldt. Mr. Chairman, as I have been trying to point out in my statement, the matter of trade should be viewed as a part of a broad process, and therefore it should be seen in terms of the objective of this process that has been initiated, the objective being a tolerable, more peaceful and generally constructive relationship with the Soviet Union.

Trade is intended to play a part in that and the payoff we would hope would be a peaceful relationship with the Soviet Union and one in which our own interests can be protected, and our general fortunes will prosper.

Mr. Ashley. I think most of the Members from whom we have heard would agree that this is a worthy and legitimate long-range goal, one which should not or cannot be expected to produce demonstrable or conclusive results in the short term, but they say to us that the consequences to date are unfortunate, that the Soviet Union's role in the Middle East has been one which is very inimical to the United States. They point out that there may well be a relationship to the action of the oil-producing states of the Middle East, which of course has produced untold consequences as far as the United States is concerned.

How would you answer that kind of objection to the broad strategic goals which you have alluded to?

What is said is that the short-term results simply do not bear out that which we have said is our objective for the longer term.

Mr. Sonnenfeldt. I think the general answer to that, Mr. Chairman, is the process that we have attempted to initiate and the objective that we seek is not going to be reached by a straight line course.

I indicated in my statement my view—the administration's assumption—that the relationship with the Soviet Union is going to be a mixed relationship having elements of confrontation as well as cooperation, having elements of confrontation as well as cooperation, having elements of rivalry as well as cooperation, and being, of course, beset by significant differences in value systems and so on.

I think that there will be periods when there will be setbacks in the the general process. There will be other times when there will be hopeful advances. We think that there have been a measurable improvement in the relationship concerning the situation in central Europe. We think that the agreements so far reached in the area of arms control have been desirable and positive achievements. We think that the ending of the great travail of the Vietnam war was at least to some degree achieved because the Soviet Union was prepared to see that end take place. In the Middle East we had a stormy passage with the Soviet Union last fall. There is some reason to hope that at the present juncture the Soviet Union is prepared to see the very delicate diplomatic effort in which the Secretary of State has engaged go forward.

So I think compared to the situation that we had 5 or 6 years ago, one can see a general trend in the relationship with the Soviet Union that has many hopeful elements. As you have just said, that is not conclusive. Nevertheless, I think there is a trend that has some hope. So that would be my judgment today. I think we have to be prepared for setbacks. That is one of the reasons why we need to keep up our military strength. That is why we need to be hardheaded and sober in our negotiations with the Soviet Union, but at the same time I think the trend has begun, and we have shown some flexibility in negotiations. The Soviets have shown some flexibility in negotiations. On the whole, they see their interests better served in a more normal relationship with us, and we see our interests better served in such a relationship. That would be my response to that question.

Mr. Ashley. Thank you, Mr. Sonnenfeldt.

The subcommittee is going to stand in recess for about 10 minutes, hopefully less. There is a vote on final passage to which we must address ourselves.

[A brief recess was taken.]

Mr. ASHLEY. The subcommittee will come to order.

Mr. Sonnenfeldt, returning to the questions that have been raised previously in testimony before the subcommittee, the question has has been raised on a number of occasions of what assurances do we have that the Soviets will not exploit our export of capital and technology to divert even more of their resources to their gigantic military buildup.

Could you, from your experience and intelligence, shed some light on that question?

Mr. SONNENFELDT. I do not know whether I can say that there will be any assurance on that. It will depend partly on what kind of trade and partly on what happens to the rest of our relationship. That is why I stressed the integral character of the trading relationship to the rest of the relationship. It has to do with how the Soviets see their interests, how they see their incentive, and if it does prove possible to make some progress in the area of arms control, in the area of crises, potential crises, potential clashing interests, then there ought to be at least a reasonable assurance that the contingency that you mention will not arise.

But this is precisely why the administration has seen trade not as standing alone by itself, as having a virtue by itself, but has seen trade as an integral part of a broad process that should affect the American-Soviet relationship and Soviet conduct across the whole spectrum, including that part that you mentioned, the question of military allocations.

Mr. ASHLEY. The question has been raised as to how realistic we are being if we believe the Soviets would pay their debts and continue to export vital products to the United States during a period of international crisis such as the recent Middle East confrontation.

Mr. SONNENFELDT. On the question of debts, I think that the Soviet record has been very good as far as the debts contracted by the Soviet Government are concerned. I think that the Soviets would have to take into consideration, if they were to default, particularly default with a major power like the United States, that their creditworthiness, their reputation, their credibility around the world would suffer enormously as a result. I am not saying that that would necessarily stop the Soviets from defaulting. It is a powerful argument that they have to make to themselves, if they want to take a chance of defaulting on what is bound to be a relatively small sum in comparison to the overall totals involved, and judge the impact of that on their total reputation in the world at large and the effect that will have on other people's willingness to deal with it.

I would say that there is a very powerful deterrent, not to mention the likely effect on their overall relationship with us.

As far as the continuation of exports is concerned, there was no noticeable stoppage in their exports during the recent Middle East crisis, in exports to us or to Western Europe. Again, I do not think it is a matter on which one can give absolute assurance. But of course,

the objective of our policy is to reduce the likelihood that such crises between the United States and the Soviet Union will occur in the first place. In the second place, the Soviets would again have to calculate the wider risk of breaking contracts and breaking commitments, and they have to ask themselves whether they want to be seen in the world as people who welch on commitments.

It is an objective of our policy and of that of many other countries to establish a normal relationship with the Soviet Union in which the Soviet Union will have the same incentive as we to continue the process of normalization rather than to take extraordinary action or to engage in acts of bad faith of this kind.

Again, the answer that is the process that we are engaged in will hopefully not bring about the kinds of contingencies that you referred to.

Mr. ASHLEY. I will have some additional questions.

I will call now on Mr. Blackburn.

Mr. BLACKBURN. Thank you, Mr. Chairman.

I think you, Mr. Sonnenfeldt, for coming before our subcommittee today. I have so many questions, I am sure there will not be enough time to ask all of them.

What I am particularly interested in right now, though, is your general premise that it is to the long-term best benefit of the Soviet Union to engage in more trade and reduce tension with the United States and the whole Western World. I believe that is the general premise of your comments. I do not want to misquote you.

Mr. SONNENFELDT. I have not put it precisely that way, but I will accept that.

Mr. BLACKBURN. I think that is a pretty fair summary of it. In your position in the State Department and with the National Security Council, I am sure that you have handled all sorts of documents, secret, top secret, confidential, and everything else including intelligence summaries.

Mr. SONNENFELDT. Yes, sir.

Mr. BLACKBURN. I have before me an intelligence summary by both the Defense and the State Departments. It is dated September of 1973. It seems that Mr. Brezhnev was being questioned by the East European leaders as to the true meaning of détente. Does this mean a permanent policy shift with regard to Soviet relations with the West? If so, how do they handle this policy shift?

This in effect, is what Mr. Brezhnev told them. He has also conveyed the same message to his own Politbureau. I will give the summary:

> To the Soviet Union, the policy of accommodation does represent a tactical policy shift. Over the next 15 or so years, the Soviet Union intends to pursue accords with the West and at the same time buildup its own economic and military strength.
>
> At the end of this period, in about the middle 1980's, the strength of the Soviet bloc will have increased to the point at which the Soviet Union, instead of relying on accords, could establish an independent, superior position in its dealings with the West.

I wonder if anything of that sort has ever come to your attention.

Mr. SONNENFELDT. Mr. Blackburn, there was a report of that general kind. I am not entirely familiar with the precise quotation, but this explanation of the Soviet policy attributed to Mr. Brezhnev did

come to my attention and that of my colleagues during the course of the past year, perhaps last fall.

Mr. Blackburn. I have heard no one challenge it at any level of government to date. With that statement attributed to Mr. Brezhnev, let us keep in mind the developments that have taken place since he made that statement: The heavy infusion of our technology into the Soviet Union; delivery of high powered computers; the grain bailout; the Mideast war that many of us feel directly relates to Soviet stimuli; the continuing propaganda on the part of the Soviet Union to oil-producing nations not to lift the oil embargo against the United States when it was causing considerable havoc in our economy; SALT I, which has been disastrous to American defense; our conceding superior positions to the Soviets in missile strength, which I seriously challenged as being in the best interests of our country; continuing Soviet development of new arms, of four delivery vehicles in the last year; and the development of MIRV.

We have seen no stop nor slowdown of development of new military strength on the part of the Soviet Union since SALT I. They have continued ahead on submarines and any other area that they wish to pursue.

Consider Soviet internal policies: Suppression of Soviet citizens; the recent ejection of Mr. Solzhenitsyn; the warnings from Mr. Solzhenitsyn and Mr. Sakharov that we should not try to do business with these people, that ultimately they are going to destroy us. To me, these things are entirely consistent with what Mr. Brezhnev said. He can well afford to accept our credits. He can well afford to accept our technology. It is serving his immediate and long-range purposes.

I challenge your statement when you say they have never defaulted on the loans, that they have always kept their contracts. I read an article just yesterday where they jacked up the price on their oil to the West Germans. They wanted to get $16 a barrel, but they settled out, I think, at $12 a barrel. In the end they only delivered something like 2.7 million tons of oil where they had contracted to deliver 3.2 million.

All of these things, in my opinion, do not warrant even the minimal degree of optimism that you would attempt to convey today.

Mr. Sonnenfeldt. Well, sir, if I may comment first on the Brezhnev statement of purpose and intention, I do not know whether that is an authentic quotation or not, but it has the ring of authenticity to it. It seems to me first of all, that it would be great folly for the United States to accept Soviet intentions as the sole determinant of reality. The Soviets are not alone in the world. We are there, too. So are many others.

The fact that the Soviets may have particular purposes or intentions, does not mean that those intentions and purposes will be realized. That is in large measure up to a great many variables, including their own capacity to implement those purposes and our capacity to implement ours. I would not accept a unilateral Soviet statement of intent, even assuming that the rendition that was contained in that report was accurate and was not, perhaps, simply tactical Brezhnevian explanation to skeptics of what he was doing, which conceivably it might have been.

Even accepting at face value that statement of intent, I do not believe that we should simply lie back and accept Soviet statements of intent as determining the future of mankind or the future of international politics.

We have a role to play as well; the role of our policy is to demonstrate consistently that if intentions are pursued that way they are going to work to the detriment of the Soviet Union rather than to its benefit.

Mr. BLACKBURN. What I can see right now is great benefit to the Soviet Union under the present policies. I see no benefit returning to us. In your position you, of course, were aware that this negotiation of the purchase of grain was going on, were you not?

Mr. SONNENFELDT. Mr. Blackburn, on that particular negotiation I did not get involved.

Mr. BLACKBURN. I did not ask you if you participated in the negotiation. I asked you whether you are aware that this negotiation was taking place.

Mr. SONNENFELDT. I will tell you exactly what I was aware of, since I was not at that time dealing with specific economic problems. I was present at some discussions early on in 1972 about the possibilities of grain purchases. The indications at that time were that the Soviets were not interested.

I was not aware of actual conclusive grain negotiations myself until they in fact had been concluded. I simply did not have a role in that. I knew that there was talk about the possibility of grain exports. We ourselves, our Government, in attempting to deal with our surpluses, was interested in promoting those exports in those days.

Mr. BLACKBURN. Let me ask you this.

Do you see any future negotiations for Soviet grain purchases from this country? If so, what would be your position toward financing such purchases, or the amount of such purchases that you would recommend to be permitted?

Mr. SONNENFELDT. That would really depend on our supply situation, the world supply situation and so forth. I think the time may come when the Soviets may again get into the international market and presumably will get in touch with us. I would think that we would really have to determine our position at that time in the light of what our own situation was and what the price situation was, and what the terms of the sale were going to be. I think that ought to be done in precisely those terms.

Mr. BLACKBURN. My time has expired.

Mr. ASHLEY. We will come back to you, Mr. Blackburn.

Mr. Rees?

Mr. REES. Thank you, Mr. Chairman.

There has been a great deal of testimony on this bill regarding technology. It is my understanding that we still have a COCOM list of items that are considered to have war making potential, so that these items will not be exported to the Soviet Union from the United States, and that the Soviet Union cooperates with this limited embargo of warmaking potential materials.

Mr. SONNENFELDT. That is correct. I believe our own unilateral list is rather more stringent than the COCOM list itself.

Mr. REES. Anyone wishing to export goods or technology to the Soviet Union would, No. 1, look at the COCOM list; No. 2, look at the State Department list; and then when they applied for an export license, the license would have to be approved by the State Department.

Mr. SONNENFELDT. The Commerce Department is the lead agency and the State Department plays a role, yes, it would have to be approved by the governmental committee that is charged with operating that restriction.

Mr. REES. So there is first the COCOM restriction. Then there is the U.S. Government restriction. Then probably for certain areas of technology, you still have the right to turn down an export license.

Mr. SONNENFELDT. That is correct, yes, sir.

Mr. REES. Really, basically, there are three screening processes on any item that we wish to export to the Soviet Union.

Mr. SONNENFELDT. I think that describes the situation correctly. I think in fairness it should be said that there will be differences in judgment sometimes between agencies and there may be people that would not share the Government's judgment on a given case in granting a license.

The procedure is a very rigorous one, a very systematic one, and it is—my colleague, Mr. Weintraub, from the Economic Bureau in the State Department is here. That Bureau represents the State Department on that committee. As far as I know, this committee is active and does this job in a very conscientious manner.

Mr. REES. Do you find that technology is beginning to be pretty universal in terms of the higher developed economies, that if we have technology in making automobiles or airplanes it is most likely that this technology is known in France or Great Britain or Japan?

Mr. SONNENFELDT. I think in that general area the technology is pretty widespread in the industrialized countries, and is on the whole available to the Soviet Union if it is not available from here. There are more sophisticated areas of technology where we would be ahead of some of those countries, and I would think that most of those would be in the area where this export license system operates.

Mr. REES. In talking about the export of technology, I have a district where we have a great deal of technology-oriented industries such as Hughes, Litton Industries, Lockheed, and so forth. If we exported technology or if we exported a machine that could be broken down in terms of reproduction in the Soviet Union, by the time this technology could be absorbed, our own technology would probably be one or two generations ahead of that technology.

Mr. SONNENFELDT. I do not myself know a great deal about that, but I have heard that case made many times. I think that view would be shared quite widely. I think that is correct in most cases.

Mr. REES. If there were an amendment to the bill that is now before us to either call for a specific approval of Eximbank financing of exports going to Communist countries, a specific approval by Congress, do you think the administration would be inclined to sign that bill?

Mr. SONNENFELDT. I cannot really give you a definitive answer on it. My own view on that and that of my colleagues is that would make the procedure an extremely cumbersome one, and would make it quite difficult for the Export-Import Bank to function in such a way that

our companies can compete properly with companies from other countries where similar restrictions were not in operation.

So, on that ground alone, in terms of the efficiency of operations, I think that we would have rather strong reservations about that kind of thing.

Mr. REES. What if there were an amendment—I think one might be proposed by Mr. Ichord—to deny Eximbank credits to a country that does not have most-favored-nation treatment? What would be the view of the administration on that amendment?

Mr. SONNENFELDT. Again, I am not really prepared to speak for the administration, but I think that since our approach to the economic relationship with the Soviet Union at this stake is to seek both Eximbank and MFN; the continuation of Export-Import Bank facilities, I would think that the administration would object strongly to the denial, in effect, of both in this manner.

Mr. REES. Thank you very much, sir.

Mr. ASHLEY. Mr. McKinney?

Mr. MCKINNEY. Thank you, Mr. Chairman.

I apologize for not being here when you made your statement, but I did read it with great interest.

I think one of the things that has been concerning this subcommittee is the basis on which we trade with the Soviet Union, and are we really being as good a trader as we can be. The Eximbank had nothing to do with the Soviet wheat deal; did it?

Mr. SONNENFELDT. No, it did not.

Mr. MCKINNEY. What I think, though, that cannot be understood by most people is why when we sell a product, that basically only we have or two or three other nations in the world in surplus, in this case, wheat, to the Soviet Union, why we give them, in other words, really three subsidies, three costs to our taxpayers, the higher cost of the product here in this country, to the taxpayers in the form of product, the cost to the taxpayer in the form of commodity holding, and the cost to the taxpayer in the form of lower interest rates than are common in the market at the time?

Why do we not when we trade in that kind of a rare raw material, where we are being rather well mined by the rest of the world at this time, which is an interesting turnabout, why do we not strike a harder bargain and go for the things that we need so desperately, gold or chromium or something of that type?

Mr. SONNENFELDT. Mr. McKinney, I think that in that sense, the 1972 grain negotiation, the grain deal was a unique thing because it came at a time when our whole philosophy and our whole psychology in this area was quite different. It was believed that we had large surpluses and we were interested in moving them. I would think that that kind of approach is not going to return again for the foreseeable future, and I think many lessons were learned in the 1972 negotiation. I hope that they were. In any event, the objective situation has changed.

I would think that the approach that you have indicated or something like that approach would be followed. I cannot predict precisely, as I was indicating a moment ago, what the situation of the terms would be. I would think that we would have a rather different ap-

proach operating out of the psychology and out of the realities of the market in which we find ourselves now and probably will for the foreseeable future.

Mr. McKINNEY. In other words, you think we are prepared at present to become good businessmen rather than sort of the patsies in the field.

Mr. SONNENFELDT. I think in all fairness to the negotiators at that time, Government as well as commercial, they thought they were being good businessmen then. I think the situation changed on them faster than they realized. I would hope that we will be good businessmen.

Mr. McKINNEY. Is there any truth to the matter that the Department of Commerce and the Department of State really did not know how many different Russian wheat deals were being made at the same time?

Mr. SONNENFELDT. I cannot speak for the Department of State at that time, since I was on the National Security Council. I think we lacked adequate information. I think that has been rectified in the legislation and in the Department of Agriculture now in the various reporting requirements. I think that was a serious disability at that time.

Mr. McKINNEY. Is the Council beginning to consider that agricultural foodstuffs are every bit as much of a strategic material as ferrous scrap and chromium and bauxite and other things of that type?

Mr. SONNENFELDT. I would now have to say—humorously—I cannot speak for the National Security Council because I am now in the State Department. But in any case, I do not know whether strategic material would be the term I would use. I think it is certainly recognized that these are important and crucial materials affecting the lives and, if you will, the security of nations.

Mr. McKINNEY. I have heard from many members of the State Department, and certainly they would not want their thoughts published. The sort of expressions which in essence are, God help us if the atomic bomb ever gets to the Middle East in any kind of extent.

I think we have probably expressed our fears in some of our trading restrictions in the Middle East. Yet, I see that the French have now agreed to either build one or two—I cannot remember what it is—atomic powerplants in Kuwait or Saudi Arabia, which will give them the fodder for a good doctorate in physics to make, in essence, a bomb—plutonium.

Is it not really true that this country, no matter what we do, that our allies are going to give the Russians anything they want and they are willing to pay for?

Mr. SONNENFELDT. I would not go quite that far.

Mr. McKINNEY. You cannot because you would not be in the State Department.

Mr. SONNENFELDT. The allies have their own restrictions. They have their own interests, as well. They are part of the COCOM system. I would not say it is a totally openended proposition.

It is certainly true that the other industrialized countries, most of them our allies, have been ahead of us in exports to the eastern countries.

Mr. McKinney. If they take their COCOM responsibilities as seriously as they take their GATT responsibilities, I do not think we have to worry about giving the Russians everything that they want.

Mr. Ashley. Mr. St Germain?

Mr. St Germain. Thank you, Mr. Chairman.

Are we keeping the record open for a week or so for submissions?

Mr. Ashley. Yes, for some days.

Mr. St Germain. Are you familiar with the recent agreement between the Japanese and the Soviets?

I believe the figure—I meant to bring this with me—is approximately $2 billion that is being invested by the Japanese with the Soviets in order to develop some oil fields.

Are you familiar with that?

Mr. Sonnenfeldt. I am generally familiar with it. I have been away, so I have not caught up with all the details of it. I am not really sure that has been consummated in its totality. Of course, there have been negotiations.

Mr. St Germain. The negotiations include, I think, an agreement that the Japanese then would be provided with a certain percentage of the oil that would be produced. Correct?

I ask that question because among the many bills that are before us which would prohibit Soviet energy investments, in essence state that no department, agency, instrumentality of the U.S. Government, directly or indirectly, provide assistance to finance or otherwise promote the export of any commodity, product, or service from the United States if the use of such commodity, product, or service involves anything with energy, research or development, or energy exploration in the Union of Soviet Socialist Republics.

It is a well-intentioned piece of legislation by the authors and those who introduced it. By the same token, it appears to me that the energy problem, the supply of oil, the shortage of oil, is an international one. If the Soviets were able to develop their own supplies they would not be competitive as far as the purchase of oil from the Mideast, let us say, or the other oil-producing nations. One wonders, if the Japanese are going to enter into such an agreement where they are guaranteed a certain percentage of production, should we not take that into consideration when looking at this type of legislation or amendment?

Mr. Sonnenfeldt. My view on this matter would be that we should maintain the option of making such arrangements with the Soviet Union, subject, obviously, to the most careful scrutiny on all the grounds, including whether it is good business and all the economics of it—the problem of dependence and so on.

But I would hope that we will maintain that option so that we can exercise it if we come to the conclusion that it is in our interests rather than foreclosing it forever and for all time.

Mr. St Germain. If you would comment a little further on that for the record when you get the transcript, I think that would be helpful to the subcommittee.

Mr. Sonnenfeldt. Yes, sir.

[In response to the request of Mr. St Germain, the following information was submitted for the record by Mr. Sonnenfeldt:]

REPLY RECEIVED FROM MR. SONNENFELDT

STATEMENT ON H.R. 13880

The Department of State believes the enactment of H.R. 13880 would be contrary to both the immediate and long-term interests of the United States.

The bill in question would have the effect of prohibiting the United States from engaging in mutually profitable cooperation wth the Soviet Union in the field of energy research and development. Under various existing bilateral specialized agreements with the Soviet Union in the field of energy research and development. Under various existing bilateral specialized agreements with the Soviet Union, the United States is engaged in scientific and technical projects in a number of energy and energy-related areas. Such cooperative projects are in our interest not only for the broad benefits derived in terms of increased contracts; they are also of direct scientific and technical interest to the United States. Thus, for example, United States scientists will soon be testing a U.S.-designed channel in a Soviet magneto-hydrodynamic test facility. The U.S. and the U.S.S.R. have agreed to work out joint programs in the areas of fast breeder research, controlled the thermonuclear reactors, low temperature power transmission—areas in which the Soviets have considerable experience. Such cooperation which can help accelerate the coming on line of advanced technologies to deal with the energy problem, would no longer be permitted under the proposed legislation, to the possible detriment of energy development in both countries.

The Department believes that promoting energy exploration in the Soviet Union may, on a case-by-case basis, also be in our long run interests. The energy problem is a worldwide phenomenon and the Soviet Union is both one of the largest consumers of energy as well as one of the most important potential sources of energy. Exploration for additional energy resources in the Soviet Union might lead to increasing the availability of Soviet supplies of energy and thus affect favorably the worldwide energy balance. U.S. participation in Soviet exploration could therefore be of considerable long term benefit to the United States, and H.R. 13880 would preclude the United States Government from the option of encouraging such participation as may be appropriate on a case-by-case basis.

Mr. ST GERMAIN. When you were asked about the record of repayment earlier as far as the Soviets are concerned, I asked one of the members of the staff, and he gave me the answer. But I would like to have it on the record, also.

This did not include the repayment of a debt under lend-lease, going back to World War II, did it?

Mr. SONNENFELDT. There was a lend-lease settlement negotiated in the fall of 1972, and the Soviets have been paying on that.

Mr. ST GERMAIN. What was the original figure on that which was owed us, and what was the negotiated figure under the settlement?

Mr. SONNENFELDT. I would have to check the figures.

Mr. WEINTRAUB. If I may, I will get into this very briefly. I think it is difficult to tell you what the original amount was because a good deal of the information that appeared at the time referred to the total amount of lend-lease provided the Soviet Union during the Second World War, and that was about $11 billion.

There was never any contemplation at the time that the lend-lease agreement, either with the Soviet Union or with the other allies, that the total amount of lend-lease provided would be repaid at the end of the period, but rather that that material that had not been consumed or destroyed during the war, but which was a considerable item at the end of the war, that that would be the amount that would be repaid. The figures on that amount were never very precise.

Mr. St Germain. Was the amount of the settlement that was negotiated $715 million?

Mr. Sonnenfeldt. $722 million.

Mr. St Germain. A portion of that has been paid?

Mr. Sonnenfeldt. The Soviets would have paid one installment, maybe two, in 1973 and 1974. Further payments beyond, I think, 1975, will depend on whether they have MFN and continued access to the Eximbank.

[In response to the request of Mr. St Germain, the following information was submitted for the record by Mr. Sonnenfeldt:]

Reply Received From Mr. Sonnenfeldt

The USSR is rated as a prime creditor by official credit agencies in all industrial countries and by private lending institutions. This rating is backed by the size of the USSR's economy, the resources available to its government, and the absence of any record of default on commercial credit. The Soviet debt outstanding is not unduly large in relation to the country's capacity to pay back.

Mr. St Germain. I want to thank you for your testimony. I appreciate your original statement.

As I was saying to the chairman of the subcommittee when one reads this statement and the logic of it, it is very strong. By the same token, when one goes home and tries to explain these things to constituents, unfortunately oftentimes they are not listening when you are talking, and they just have one idea in mind. That is why we are doing this.

It is a difficult proposition, as I am sure you people in the State Department realize.

Mr. McKinney. Will the gentleman from Rhode Island yield for a moment?

Mr. Ashley. Let him finish his statement.

Mr. St Germain. I have finished my statement. My time has expired.

Mr. Ashley. Mr. McKinney?

Mr. McKinney. I want to get on the record at this time.

How many other countries have made agreements to pay their loans from the war?

Mr. Sonnenfeldt. The British certainly have.

Mr. Weintraub. Almost all countries.

Mr. Sonnenfeldt. I think all countries. I have the British in mind because that is the comparison in order of magnitude that is frequently made. I think they all have been settled.

Mr. McKinney. For the record, if you have a chance I would like to have a comparison—I think it would help us—of the different nations, the Western side. You do not have to do it now; when you get your testimony to correct it.

[In response to the request of Mr. McKinney, the following information was submitted for the record by Mr. Sonnenfeldt:]

Reply Received From Mr. Sonnenfeldt

U.S. LEND-LEASE SETTLEMENT WITH THE SOVIET UNION

On October 18, 1972 Secretary of State Rogers and Soviet Minister of Foreign Trade N. S. Patolichev signed an agreement settling the Soviet Union's lend-lease debt to the United States. Under its terms the Soviet Union will pay

the United States at least $722 million by July 1, 2001. More significantly, the settlement removes what had been a major obstacle to the development of normal commercial relations between our two countries.

Purpose of Lend-Lease

Congress enacted the lend-lease program before our entry into World War II in order ". . . to Promote the Defense of the United States." By helping other countries resist Axis aggression, we aided our own defense. Once we were in the war, lend-lease became an instrument for strengthening our allies and promoting the cause of worldwide victory over enemy forces. Lend-lease was not a loan of money nor was it provided for the exclusive benefit of the recipient country. It was a program that served the mutual interest of all the allies and that contributed mightily to the eventual defeat of the Axis powers.

U.S. Policy on Payment for Lend-Lease Goods

Lend-lease aid to our allies fell into two categories: (1) goods delivered before September 20, 1945 and (2) goods requested and contracted for before V–J Day (September 2, 1945) but not delivered until after September 20. This second category included large quantities of supplies and equipment that either were in production or storage in the United States when the war ended.

Insofar as the first category is concerned. we sought no payment for equipment and services furnished our allies which were lost, consumed or destroyed during the war. Nor did we seek compensation for combat items (as tanks and military aircraft) left over at the war's end. We are, however, receiving payment from most of our allies for civilian-type goods useful to a peacetime economy which were in other countries' possession when military operations ceased (September 2, 1945). Additionally, we are receiving payment for lend-lease articles delivered after the program formally ended (September 20, 1945).

Soviets Made Payment for Goods Delivered After Termination of Lend-Lease

On October 15, the Soviet Union agreed to pay for lend-lease articles which were in production or storage in the United States before the program ended. The amount due for these goods—called the "pipeline" account—was set at $222.5 million. This amount was to be paid in 22 annual installments, with interest at 2⅜ percent per annum. The Soviets paid their first installment on July 1, 1954. The overall settlement agreement signed on October 18 incorporated this "pipeline " account.

Previous Attempts To Reach Agreement on Civilian-Type Goods Unsuccessful

In line with our policy toward all lend-lease recipients, the U.S. Government asked the Soviets to pay for civilian-type goods on hand at the war's end on the basis of "fair" or "reasonable" value. However, the Soviets never gave us an inventory of what they had which fell into this category. This position left the two sides without an agreed statistical basis from which to negotiate although we had our own calculations. The negotiations held between 1948–1952 saw the Soviets offering up to $300 million—a figure we rejected as unacceptably low—while we asked for $800 million.

Negotiations resumed in 1960. This time, however, the Soviet side insisted that any lend-lease settlement would have to be coupled with a trade agreement giving them tariff treatment in U.S. markets as favorable as that accorded most other countries. In 1951 the U.S. Government had terminated a 1937 commercial agreement with the Soviet Union. In its place we substituted a tariff schedule higher for goods imported from the Soviet Union than from other countries to which we accord "most-favored-nation" tariff treatment. The Soviet negotiators also requested U.S. credits similar to those we had provided other wartime Allies. U.S. negotiators were not empowered to negotiate on thees points, and the talks broke off.

1972 Negotiations Produce Agreement

Negotiations resumed again in April 1972. In May, during the course of the Moscow Summit meetings, Secretary Rogers and President Nixon discussed the subject with Premier Kosygin. A third negotiating session was held in Moscow in July concurrently with the visit of Secretary of Commerce Peterson. A final round of talks, beginning in September, produced a trade agreement, reciprocal export credit arrangements and a lend-lease settlement, all of which were signed

on October 18. The settlement is a fair one and is at least as favorable to the United States as the lend-lease accord with the United Kingdom, which was used as a model. Below is a comparison between the two settlements:

	United Kingdom	Soviet Union
Total net aid extended	$21,600,000,000	$11,300,000,000.
Total amount to be paid	[1] $895,000,000	[1] $921,000,000.
Grace period	5 years	None.
Final due date	Dec. 31, 2005 (could be Dec. 31, 2008, if 3 additional permitted deferments taken).	July 1, 2001, no extension.
Annual deferments	7 allowed, extends final due date.	4 allowed, no extension.
Interest rate on deferments	2 percent	3 percent.

[1] Assumes no deferments and includes payments on the "pipeline" account (approximately $199,000,000 was received from Soviet Union from 1954 through July 1, 1971) and the lend-lease cash account (approximately $10,000,000). By terms of the settlement the Soviet Union will pay the United States at least $722,000,000 over the period ending July 1, 2001. A first payment of $12,000,000 was made when the agreement was signed. The second, for $24,000,000, is due on July 1, 1973 and another $12,000,000 is due on July 1, 1975. These payments are unconditional.

The balance of the sum will be paid in equal annual installments. The date of the first of these installments will depend, however, on when U.S. tariff discrimination on imports of Soviet goods ends. This action—the extension of "most-favored-nation" tariff treatment to the Soviet Union—will require the approval of Congress.

The terms of the settlement also allow the Soviets the privilege of deferring up to four of their annual installments. In such a case interest charges on each installment, at three percent a year, would be added to the total. In that event, the total Soviet payments to the United States would exceed the $722 million figure.

Negotiations Point Toward More Secure Future

While in the Soviet Union for the Summit talks, President Nixon spoke to the Soviet people about his efforts as President of the United States to work for better relations between our two countries. He pointed to the agreements reached at the Summit and expressed the hope that, finally, the world's two nuclear superpowers had begun "the long journey" that would lead to a new age in their relations with each other and in the world's chances for a lasting peace. By themselves, these post-Summit agreements on lend-lease and U.S.-Soviet commercial relations stand as examples of how economic partners can resolve their problems in a mutually satisfactory and business-like fashion. Considered in a wider context however, they offer evidence that "the long journey," recently begun, has carried the United States and the Soviet Union one step farther along on the road toward the secure peace we all desire.

LEND-LEASE ACTIVITIES

Collections during 1973 totaled $59,856,878.66 of which $48,460,487.40 was paid on principal and $11,396,391.26 in interest. All payments were in dollars. Payments by country are shown below.

TABLE 1.—PAYMENTS ON LEND-LEASE ACCOUNTS DURING CALENDAR YEAR 1973

Country	Principal	Interest	Total
France	$13,366,452.43	$2,294,476.95	$15,660,929.38
Liberia	375,000.00		375,000.00
Union of Soviet Socialist Republics [1]	24,000,000.00		24,000,000.00
United Kingdom	10,719,034.97	9,101,914.31	19,820,949.28
Total	48,460,487.40	11,396,391.26	59,856,878.66

[1] Partial payment on lend-lease "pipeline" account only.

As of December 31, 1973 aggregate payments and credits against total lend-lease obligations of $4,377,862,833.86 amounted to $3,022,777,082.77, leaving an outstanding balance payable of $1,355,085,751.09 as summarized in the following table.

TABLE 2.—STATUS OF LEND-LEASE ACCOUNTS AS OF DECEMBER 31, 1973

	Total obligations	Payments and credits (net)	Balance payable
Lend-lease funded settlement accounts:			
Principal	$2,253,131,842.41	$998,297,199.02	$1,254,834,643.39
Interest	498,026,880.21	422,916,162.90	75,110,717.31
	2,751,158,722.62	1,421,213,361.92	1,329,945,360.70
Cash accounts	1,326,739,568.53	1,301,599,178.14	25,140,390.39
Silver loans [1]	299,964,542.71	299,964,542.71	
Total	4,377,862,833.86	3,022,777,082.77	1,355,085,751.09

[1] The obligation was repayable in silver as shown in Table 5. It is here expressed in dollar equivalents for accounting purposes. When dollar payments were received in lieu of silver, such dollar payments were converted to their silver equivalent at the then current market value of silver.

The lend-lease accounts consist of three categories, namely; funded settlement accounts, cash accounts, and silver accounts. The status of each of these is summarized below, followed by tables showing detailed data by country.

Lend-Lease Funded Settlement Accounts (Table 3)

Principal payments and credits amount to $998,297,199.02 or 44.30% of the total settlement principal obligation of $2,253,131,842.41. In addition, $422,916,-162.90 has been paid in interest on these accounts. A total of $42,002,281.16 on principal and $27,818,738.66 in interest is past due.

Lend-Lease Cash Accounts (Table 4)

Payments received and other credits on the "cash" accounts total $1,305,185,-380.49 or over 98 percent of the total obligation. Past due principal obligations totals $25,140,390.39.

Lend-Lease Silver Accounts (Table 5)

The lend-lease silver program aggregating almost 410 million fine troy ounces has been fully repaid.

TABLE 3.—TOTAL AMOUNT OWED, AGGREGATE PAYMENTS MADE THROUGH DECEMBER 31, 1973, AND TOTAL AMOUNT OUTSTANDING ON LEND-LEASE FUNDED SETTLEMENT ACCOUNTS

Country	Settlement obligation	Interest accrued	Total amount owed	Paid through Dec. 31, 1973		Balance to be repaid	Past due	
				Principal	Interest		Principal	Interest
Australia	$20, 500, 000. 00		$20, 500, 000. 00	$20, 500, 000. 00				
Belgium	55, 004, 573. 93		55, 004, 573. 93	55, 004, 573. 93				
China [1]	50, 334, 968. 65	$30, 107, 568. 49	80, 452, 627. 14	3, 356, 331. 24	$2, 288, 619. 83	$74, 807, 676. 07	$41, 954, 140. 52	$27, 818, 738. 66
Czechoslovakia	172, 961. 45		172, 961. 45	172, 961. 45				
Ethiopia	200, 000. 00		200, 000. 00	200, 000. 00				
France	353, 300, 000. 00	139, 544, 161. 84	492, 844, 161. 84	251, 942, 605. 02	139, 544, 161. 84	101, 357, 394. 98		
Iran	10, 354, 976. 32		10, 354, 976. 32	10, 306, 835. 68		48, 140. 64	48, 140. 64	
Liberia [2]	19, 422, 682. 39		19, 422, 682. 39	2, 825, 000. 00		16, 597, 682. 39		
Luxembourg	120. 00		120. 00	120. 00				
Netherlands	67, 500, 000. 00	12, 508, 790. 93	80, 008, 790. 93	67, 500, 000. 00	12, 508, 790. 93			
Norway	5, 900, 000. 00		5, 900, 000. 00	5, 900, 000. 00				
Poland	110, 000. 00		110, 000. 00	110, 000. 00				
Republic of South Africa	92, 500, 000. 00		92, 500, 000. 00	92, 500, 000. 00				
Turkey	4, 500, 000. 00		4, 500, 000. 00	4, 500, 000. 00				
Union of Soviet Socialist Republics [3]	896, 494, 574. 01	82, 194, 676. 47	978, 689, 250. 48	210, 494, 574. 01	82, 194, 676. 47	686, 000, 000. 00		
United Kingdom	562, 446, 911. 00	233, 590, 703. 54	796, 037, 614. 54	165, 361, 909. 17	[4] 186, 299, 024. 89	397, 085, 001. 83		
Yugoslavia [5]	647, 145. 34		647, 145. 34	639, 365. 20		8, 618. 88		
American Republics	113, 732, 923. 32	80, 888. 94	113, 813, 812. 26	106, 982, 923. 32	80, 888. 94	[5] 6, 750, 000. 00		
Total	2, 253, 131, 842. 41	498, 026, 880. 21	2, 751, 158, 722. 62	998, 297, 199. 02	422, 916, 162. 90	1, 282, 654, 514. 79	42, 002, 281. 16	27, 818, 738. 66

[1] Refers to lend-lease "pipeline" accounts only.

[2] Transfer of U.S. interests in lend-lease financed Port of Monrovia to Government of Liberia effected by exchange of notes signed at Monrovia Apr. 13 and 14, 1964 and published in TIAS 5583.

[3] Revision of figures reflects the Oct. 18, 1972 agreement which provided for a full and final settlement of all Soviet lend-lease accounts including the wartime and postwar ("pipeline") accounts. Allowance of Soviet counterclaim in the amount of $57,900,000 for damages resulting from nondelivery of goods contracted for under the "pipeline" agreement required the recalculation of accrued interest on the "pipeline" account.

Date due	Principal	Interest
Dec. 31, 1956		$10, 347, 564. 10
Dec. 31, 1957	$6, 372, 932. 36	10, 203, 633. 46
Dec. 31, 1964	9, 027, 335. 64	9, 220, 253. 08
Dec. 31, 1965	9, 195, 796. 72	9, 039, 706. 36
Dec. 31, 1968	9, 712, 766. 10	8, 480, 521. 65
Total	34, 308, 830. 82	47, 291, 678. 65

[4] Includes amounts postponed by agreement.

[5] Agreement provides for payment of 45,000,000 dinars. Amount adjusted to reflect current value of obligation.

TABLE 4.—MISCELLANEOUS LEND-LEASE CASH ACCOUNTS AS OF DECEMBER 31, 1973 [1]

Country	Total obligations	Credits: U.S. dollars	Credits: Foreign currency (dollar equivalent)	Credits: Other credits	Credits: Total	Amount due foreign governments	Balance due
Australia	$5,798,342.00	$5,798,342.00			$5,798,342.00		
Belgium	26,749,473.46	26,682,896.63	$66,576.83		26,749,473.46		
Burma	440,223.82		440,223.82		440,223.82		
Canada	388,757,601.09	388,757,601.09			388,757,601.09		
China	27,046,128.79	10,417,158.07			10,417,158.07	$3,584,435.73	$20,213,406.45
Czechoslovakia	3,368.00	3,368.00			3,368.00		
Denmark	4,059,107.95	4,059,107.95			4,059,107.95		
Ethiopia	35,242.57	35,242.57			35,242.57		
Finland	13.00	13.00			13.00		
France	332,127,404.05	283,736,672.79	90,731.26	$48,300,000.00	332,127,404.05		
Greece	103,428.32	105,194.94			105,194.94	1,766.82	
Greenland	8,351.28	8,351.28			8,351.28		
Iceland	4,496,553.29	4,496,553.29			4,496,553.29		
India	66,607,677.59	62,080,717.71		287,954.38	62,368,672.09		4,299,005.50
Iran	124,378.33	34,378.33			34,378.33		90,000.00
Iraq	54.00	54.00			54.00		
Italy	80,635,955.14	80,635,955.14			80,635,955.14		
Liberia	17,937.27	17,937.27			17,937.27		
Middle East	50,377,089.88	11,142,266.72	39,234,823.16		50,377,089.88		
Netherlands	34,497,543.10	26,986,758.01		7,510,785.09	34,497,543.10		
New Zealand	602,556.05	602,556.05			602,556.05		
Norway	9,982,550.99	9,982,550.99			9,982,550.99		
Republic of South Africa	16,516,848.27	16,516,848.27			16,516,848.27		
Southern Rhodesia	1,415,510.78	1,371,831.69			1,371,931.69		43,579.09
Sweden	240,689.98	240,689.98			240,689.98		
Thailand	217.00	217.00			217.00		
Turkey	3,322,960.26	3,322,960.28			3,322,960.28		
U.S.S.R	10,036,257.58	10,036,257.58			10,036,257.58		
United Kingdom	250,145,433.85	100,929,375.57	594,156.03	148,621,902.25	250,145,433.85		
Yugoslavia	63,376.50	63,376.50			63,376.50		
American Republics	12,467,294.32	11,968,655.13	4,239.84		11,972,894.97		494,399.35
Total	1,326,739,568.53	1,050,033,987.83	40,430,750.94	204,720,641.72	1,305,185,380.49	3,586,202.35	25,140,390.39

[1] Includes amounts payable to the U.S. Government for supplies and services procured under cash reimbursable procedures; certain payments made to the U.S. Government under Reciprocal Aid Agreements; funds received for sales of salvaged lend-lease goods, insurance premiums, etc., which funds are credited to the lend-lease account of the foreign government involved; and other sundry postwar receipts from such sources as war production royalties, settlement of claims, and other miscellaneous transactions relevant to lend-lease.

TABLE 5—STATUS OF LEND-LEASE SILVER ACCOUNTS AS OF DECEMBER 31, 1973[1]

	Fine troy ounces loaned and returned
Australia	11, 772, 730. 21
Belgium	261, 333. 33
Ethiopia	5, 425, 000. 00
India	172, 542, 107. 00
Netherlands	56, 737, 341. 25
Pakistan	[2] 53, 457, 797. 00
Saudi Arabia	[3] 21, 316, 120. 01
United Kingdom	88, 270, 241. 84
Total	409, 782, 670. 64

[1] Total hereof shown in dollar equivalent in table 2.
[2] Includes cash payments totaling $5,632,428.73 converted to the equivalent of 4,693,-902.19 fine troy ounces.
[3] Includes cash payments totaling $20,451,894.51 converted to the equivalent of 19,944,-709.73 fine troy ounces.

Mr. ASHLEY. Mr. Frenzel?

Mr. FRENZEL. Thank you, Mr. Chairman.

Thank you, Mr. Sonnenfeldt, for your testimony today. Your testimony does indicate that you are supporting specifically the extension of the Eximbank and the increases in its capabilities. We also have before us an extension of the Export Administration Act and the extension of the Council on International Economic Policy.

May we assume that the State Department is supporting those two administration proposals, too?

Mr. SONNENFELDT. If they are administration proposals, I think you can assume that—humorously. The Department of State supports strongly both these proposals as well.

Mr. FRENZEL. May I say, Mr. Chairman, I hope that he revises and extends his remarks. It is hardly a ringing affirmation. But I guess we should accept it.

Mr. SONNENFELDT. That is really out of my bailiwick, but I will be prepared to give you an answer.

Mr. FRENZEL. I will ask the question in a different way.

In your experience in the State Department, has the State Department's interest been well covered in CIEP? Are you satisfied with the operation of it so far?

Mr. SONNENFELDT. My experience with CIEP really goes back to my White House experience on the National Security Council Staff. I can tell you that Mr. Flanigan's deputy was a Foreign Service officer, and there were other State Department people assigned to CIEP. I would say the State Department thinks it is well served. I think the CIEP mechanism has been found to be quite effective from the standpoint of bringing to bear diplomatic considerations on international economic matters.

[In response to the request of Mr. Frenzel, the following information was submitted for the record by Mr. Sonnenfeldt:]

STATEMENT ON H.R. 13840

(Export Administration Act Amendments of 1974)

The Department of State supports the enactment of H.R. 13840. Continuing authority to regulate United States exports is needed, as Secretary Dent has previously explained in presenting the Administration's view on this legislation,

to safeguard United States and Free World security interests, to enable us to implement programs which further United States foreign policy objectives, such as controlling arms shipments to designated countries, and to preserve adequate supplies of commodities for use within the domestic economy. Authority to act for such purposes has been in effect for a good many years and should continue to be available for use as circumstances require.

We support the amendments to the existing legislation proposed by the Administration. They will broaden the options available in taking action and make for more effective administration. We believe, for example, that the Act should be revised to permit retaliatory action to be taken against countries which would unreasonably deny us access to their resources. This authority would, of course, be discretionary and would only be used in situations where attempts to resolve the problem through international negotiations were not productive and retaliatory action would be effective.

We have been asked why we are seeking this revision, since it is argued, there is existing authority to take such action on foreign policy grounds. The answer is that, while export controls imposed to carry out international obligations are clearly imposed on foreign policy grounds, such controls imposed unilaterally may well be intended as economic counter measures or retaliation for economic actions by others. Accordingly we believe that the authority to impose export controls unilaterally for unreasonable actions by a nation or group of nations, which may not be subject to sanctions under international agreements, should be expressly authorized rather than inferred from the present language in the Act.

Statement on H.R. 13839

(Extension of International Economic Policy Act of 1972, as amended)

The Department of State supports the enactment of H.R. 13839, extending the Council on International Economic Policy (CIEP). CIEP is an important means for coordinating policies of the various agencies each of which may have their own special interests in U.S. foreign economic policy. CIEP places in perspective and reconciles the various interests of these agencies, and also acts as a focal point and screening device for the collection of new policy initiatives. Additionally, CIEP in coordinating and directing research on matters related to U.S. foreign economic problems assures that all interests of all agencies concerned will be taken into account in arriving at new policy approaches.

At the present time CIEP is coordinating the U.S. government review of foreign direct investment in the United States and has been working to formulate internationally acceptable principles to guide the policies of all governments toward international investments, tourism, and multinational corporations. CIEP has brought economists, bankers, businessmen, and government officials together to examine the banking laws of the U.S. and ways in which we may improve the international competitiveness of the U.S. financial industry. It has searched for ways to improve the profitable sale of high technology goods from the U.S. to others in an effort to strengthen the long-run aspect of the U.S. balance of payments, and has been instrumental in the formulation of policy to assist the U.S. international air carriers in light of the oil crisis.

These are all examples of issues which cut across the responsibilities of several departments and where the coordinating role of an organization such as CIEP is necessary to assure a foreign economic policy which will best serve our domestic and foreign interests.

Mr. Frenzel. What would happen to our relationships with the Soviets if we were to amend the Eximbank law to provide that credit would not be available to nonmarket countries?

Mr. Sonnenfeldt. I think it would deprive us of a major instrumentality for doing business with the Soviet Union and for conducting our overall policy toward the Soviet Union. I think from the Soviet standpoint it would be a considerable setback as they see the evaluation of their relations with us, and I think it would therefore prove

a setback to the overall process of normalization in the American-Soviet relationship.

Mr. FRENZEL. Correct. But that kind of amendment would also prohibit a good deal of trade in Central Europe and with the People's Republic of China, and I presume that would not do our international policy lots of good.

Would it?

Mr. SONNENFELDT. I think it would undo a good deal of what has been accomplished in recent years with China, with Rumania, with Yugoslavia, with all the other countries whom we have been attempting to deal with on a more normal basis and to treat as sovereign independent nations. I think it would represent a setback vis-a-vis those countries, yes, sir.

Mr. FRENZEL. Our trade policies, including the extension of the Eximbank, are an important part of our overall foreign policy. If we were not to extend Eximbank, or extend it on a limited basis, we would simply be making it far more difficult for us to carry out our foreign policy.

Is that a fair statement?

Mr. SONNENFELDT. Yes, sir.

Mr. FRENZEL. You mentioned in previous testimony that the Soviets did not stop their exports to us during the confrontation. As a matter of fact, did they not do more than that?

Did they not agree to slow receipts of wheat at a time when our cash wheat markets and our future markets were in short supply?

Mr. SONNENFELDT. I think that is correct. They were approached and they agreed.

Mr. FRENZEL. Do you happen to know if they are current on their credit for the wheat sale?

There has been some allegation here that they are not up to date.

Are you aware of such a thing?

The Soviets are current in their payments, having paid to date $120 million on the principal and $20 million in interest.

Mr. SONNENFELDT. I am not aware of it.

Mr. FRENZEL. There was a statement made here that there was a heavy infusion of technology into Russia in the last several years. Sales of computers and wheat and ball-bearing machines were specifically mentioned. I would agree that wheat is one of our highest technology exports, because we know how to "build" it better than anybody.

I asked the gentlemen from the Defense Department yesterday, and I will ask you again today:

Are you aware of anything that we have shipped from this country to Russia that is not available to them through their own technology or available elsewhere in the world for purchase, lease, or for stealing?

Mr. SONNENFELDT. I am not specifically aware of any American export to the Soviet Union which in terms of its sophistication and technology could not be acquired elsewhere.

Mr. FRENZEL. I think this is very important, because I believe that both in terms of our export control and our Eximbank Act, we are told that somehow we are giving away things that will enable the Soviet Union to increase their military power and somehow catch up with us

or otherwise threaten us. Heaven knows how, but most of the witnesses, at least from the administration, who appear before us have said the same thing that you do, that we are not giving them anything they could not get elsewhere.

I simply wanted that confirmation, and I appreciate your supplying it. My time has expired.

Mr. ASHLEY. Mr. Sonnenfeldt, pursuing some of the lines of inquiry that we heard from other witnesses, legislation has been introduced which would incorporate the language of the Vanik amendment as it applies to the operation of the Export-Import Bank. We are asked:

"What concrete evidence do we have that the Soviets are now respecting the most basic human rights by relaxing their repressive emigration policies. The question is put to us: Do we as Americans and as freedom's champions want to reward a government that denies persecuted religious and ethnic minorities the right to freely emigrate from the land of the oppressor?

Are we to naively accept the suggestion that we act simply because a few thousand Russian Jews, thanks to the pressure of world public opinion, have been allowed to leave in order to settle in Israel, that there are now thousands more who are unable to assume the stiff financial loss and personal hardship required to get out of that country?

What would be a suggested response, legislatively or otherwise, to this line of inquiry?

Mr. SONNENFELDT. In the first place, Mr. Chairman, I do not regard anything that we do as rewarding the Soviet Union for any oppressive aspects of their domestic system. I think that is a wholly inaccurate way of describing anything that we do in our policy or in our actions as a government. I think that in regard to those practices and those aspects of the Soviet system, we have never left the slightest doubt that we deplore them, we abhor them. We welcome any human improvements that are achieved in the Soviet system for people living in the Soviet Union.

The administration does not consider—and I strongly support this judgment—that the kind of amendment put forward by Mr. Vanik is an effective way of having any direct impact on the nature of the Soviet system. It is the judgment of the administration that cumulatively the kind of policies that we have been attempting to follow in harmony with some of our friends and allies in Western Europe and elsewhere, that cumulatively those policies are more likely to have an ameliorative effect on the Soviet system. The efforts to legislate punitive measures against the Soviet Union, those are, in all likelihood, going to produce reactions that will harm rather than benefit the people in the Soviet Union and particularly the minorities, the Jewish people and so on, the emigration question that you have referred to.

Mr. ASHLEY. What you seem to be suggesting, which I think I agree with, is that the chance of affecting changes in Soviet policy are better obtained through diplomacy, the channels of diplomacy, than through legislative action of the kind that has been proposed.

Can we say—and I do not want to ask you questions about Dr. Kissinger and his negotiations with the Soviets—can it be said that some degree of success has been encountered in his discussions on the subject with the Soviets?

Can we look to the channels of diplomacy as a potentially helpful, fruitful activity, as opposed to legislation?

Mr. SONNENFELDT. I think that diplomacy so far has shown results. The question of the education tax was handled in diplomatic channels last year, and the suspension of it was achieved in that way. So, from that experience and the experience with other particular hardship cases and things of that kind that have also been handled through diplomatic channels, I would say that is correct.

Over the longer run, it is the range of policies, the whole prospect of increasing contact among people through the various exchange agreements and so on, the reduction of tensions and the sources of crises, that are likely to have some beneficial impact on the nature of the Soviet system. So that the method, I would say, is diplomacy, and the longer term incentive, the longer term instrument is the broadening and deepening of a constructive relationship between the Soviet Union and the outside world.

Mr. ASHLEY. Mr. Blackburn?

Mr. BLACKBURN. I think that I should observe that the gentleman from Minnesota has about as much grasp of the use of technology in warfare as he has of life in the Soviet Union. He was asking a former political prisoner last week about the two-car garages and the burgeoning middle class in the Soviet Union.

The gentleman replied that obviously they lived in two different planets. I suspect that there are many of us who question some of the judgments being made about the goods being shipped to the Soviet Union, and I expect we are going to hear more about that before this matter is finally concluded. You are going to find some strong evidences that we are materially contributing to the Soviet Union's military capability right now, and the glossing over by saying that they can buy the same goods everywhere else just will not hold water when we consider that they are buying things from us that they wanted to buy for years, and if they had all the money they wanted, if they could have gotten it anywhere else, they would have been buying them somewhere else—such as ball-bearing machines and advanced computers.

The way we sit here—I have to sit here and listen to these matters glossed over with such a casual sophistication, I find rather disturbing.

Mr. Sonnenfeldt, in the final analysis, what we are dealing with are questions of judgment, is that not true?

Mr. SONNENFELDT. Yes, sir.

Mr. BLACKBURN. You are giving us the benefit of your judgment in your testimony here. The reason that I raise the issue of judgment is because when you were having hearings before the Senate Finance Committee there were some testimonies about some charges of indiscretion on your part.

Do you recall those charges?

Mr. SONNENFELDT. Yes, sir.

Mr. BLACKBURN. You denied those charges, did you not?

Mr. SONNENFELDT. That is correct.

Mr. BLACKBURN. Those matters have really not been brought to issue, have they?

Mr. SONNENFELDT. They have been brought to issue as far as I am concerned.

Mr. BLACKBURN. You would have no objection if I requested an investigation further into the matter, would you?

Mr. SONNENFELDT. I have never objected to any investigation of this kind at all, sir.

Mr. BLACKBURN. All right, sir.

When we talk about reviewing the economic effects of trade with the Soviet Union, do we consider this fact: As we build up their productive capacity in items that might have a salable attraction in Western Europe, are we taking into account that the Soviet Union does not have free labor in any sense?

They have a combination of nonfree labor and slave labor. This labor can be used in combination with Western technology to underbid Western companies.

Are we taking that into account?

Mr. SONNENFELDT. I believe, Mr. Blackburn, that we are taking that into account, and in the trade agreement that the United States negotiated with the Soviet Union, as far as our own bilateral trade relations are concerned, provisions were made for handling problems of dumping and underselling and things of that kind. So we are very conscious of that. If most-favor-nation treatment were accorded, those provisions would come into play to protect ourselves against underbidding and underselling.

Mr. BLACKBURN. Would the antidumping provisions relate only to sales by the Soviet Union in the United States?

Mr. SONNENFELDT. As far as the bilateral trade agreement is concerned, that is correct. Presumably the other countries would have to take similar precautions in their own relations with the Soviet Union.

Mr. BLACKBURN. What I am thinking of specifically is, if we complete the building of the Kama River truck factory and they are able to sell trucks at a very low price because their wages are considerably less than the rest of the free world, we might be able to implement the antidumping provision as far as the U.S. markets are concerned.

What about the Western market? What about the Asian markets?

Mr. SONNENFELDT. Perhaps Mr. Weintraub can comment on the technical aspect of that. I can really only say that we sought to protect ourselves against that kind of practice in the trade agreement that we negotiated. I would assume that the Western European countries who have trade agreements with the Soviet Union have done the same thing.

Perhaps Mr. Weintraub can comment further on that.

Mr. WEINTRAUB. I have no further comment. That is true, they would have to protect themselves.

Mr. BLACKBURN. We cannot protect ourselves against Soviet sales in Western Europe.

Mr. WEINTRAUB. If the sales were in competition with our sales, and we had some evidence that they were being dumped, we would have no treaty or legal rights, if that is what you are saying, to protect ourselves. I think we would have rights in discussion.

Mr. BLACKBURN. From what I understand from talking to Soviet officials, their agreement is that if we make any complaint about sales of their goods in this country, that is enough. They will stop it.

I do not see how we can implement antidumping provisions against the Soviet Union. Their whole system does not permit cost account-

ing methods in the same way that our system permits. We can find out how much it costs to manufacture a Japanese television in Japan because they have a very sophisticated method of keeping accounts. The Soviet Union does not have that. They can cancel all their internal debts at the beginning of each year, which they tell me is one of the great benefits of their system.

All I am saying to you is, antidumping in the traditional sense cannot possibly apply to the Soviet Union. In New York State, today, Soviet tractors are being sold for $7,500. Comparable American tractors run $15,000. In Western Europe the Soviets are selling Fiats built by the Fiat plant in the Soviet Union for a lesser price than the Fiat Co. can sell them. The only reason it is not causing the Fiat Co. any trouble is because they are so inefficient they do not make more of them.

Are these matters being considered before we approve these transfers of such high technology as wheat and automobile manufacturing equipment?

Mr. WEINTRAUB. Let me say, we thought a good deal about possible dumping. It has not been a problem in the past because the Soviet Union in general has not dumped or tried to export goods.

Mr. BLACKBURN. Their stuff is so shoddy they could not sell it anyway. But assuming that they have better stuff.

Mr. WEINTRAUB. All I am saying is, we have thought about it a good deal. This is the reason why the antidumping provision is in the bilateral agreement.

You are correct. If we could not protect ourselves in a legal sense in third markets except through discussion both with the Soviet Union and the other country—I would assume that these sales were being made for comparable quality merchandise way below any other competitor's price in a market in Western Europe—that there would be a basis for discussion. I do not think the world trade community would not discuss this issue.

Mr. BLACKBURN. My time has expired.

Mr. ASHLEY. Mr. McKinney?

Mr. MCKINNEY. As far as you know, do we have anything to do with setting up the technology or the manufacturing plant that built the Soviet tractor?

Mr. SONNENFELDT. Is it the Kama River plant?

Mr. WEINTRAUB. I do not know.

To date the Export-Import Bank has extended no credits for tractor factories nor for any transfer of technology regarding tractors to the U.S.S.R.

Mr. MCKINNEY. What do you suppose the effect would have been if we had opened up trade earlier, or what would you suppose the dollar loss to this country probably was in comparison to our allies?

Mr. SONNENFELDT. I do not know that the economic difference would have been very substantial if trade relations with the Soviets had opened up earlier than was in fact the case. That would have required some credit facility. It would have required some tariff arrangement, allowing most-favored-nation treatment. That was not feasible until there was a lend-lease settlement. So, as a practical matter, I do not think, even if this administration, or an earlier administration, had

wanted to go more rapidly it would have made that much difference. I think some individual companies would have been benefited if there had been more encouragement earlier. I do not think that the aggregate economic picture would have been materially affected.

Mr. McKINNEY. Who is the heaviest trader, outside the Communist bloc, besides the Soviet Union?

Mr. SONNENFELDT. West Germany, Japan coming along fast.

Mr. McKINNEY. Where will we rate on the register at the present moment.

Mr. SONNENFELDT. We are quite far down.

Mr. McKINNEY. In the record, later, when you get your transcript, list the countries and how you feel they probably rate in trade and volume with the Soviet Union.

Mr. SONNENFELDT. We will do that, yes, sir.

[In response to the request of Mr. McKinney, the following information was submitted for the record by Mr. Sonnenfeldt:]

PRINCIPAL MARKET-ECONOMY TRADING PARTNERS OF THE U.S.S.R.

[Billions of U.S. dollars]

	1972			1973 (estimate)		
	U.S.S.R. exports	U.S.S.R. imports	2-way total trade	U.S.S.R. exports	U.S.S.R. imports	2-way total trade
Germany, Federal Republic	0.421	0.712	1.133	0.738	1.153	1.891
Japan	.595	.505	1.100	1.079	.484	1.563
United States	.096	.542	.638	.214	1.190	1.404
United Kingdom	.611	.229	.840	.831	.232	1.063
Total	1.723	1.988	3.711	2.862	3.059	5.921
Percent of total Soviet trade with non-Communist countries	40	37	39	42	47	44

Mr. McKINNEY. Could you do the same—who the heaviest credit extender is, and would you say that would be West Germany also, because they are doing the most?

Mr. SONNENFELDT. I think the West Germans probably are the single heaviest country at the moment, yes.

Mr. McKINNEY. As far as credit is concerned?

Mr. SONNENFELDT. Yes. That is right.

[In response to the request of Mr. McKinney, the following information was submitted for the record by Mr. Sonnenfeldt:]

U.S.S.R. HARD CURRENCY INDEBTEDNESS—APRIL 1974

Officially backed credit authorizations

(*All figures are rough estimates*)

Total (debt service ratio 25 percent)	$4,000,000,000+
Approximate breakdown:	
West Germany	1,000,000,000
France	600,000,000
United States	650,000,000
Japan	500,000,000
Italy	500,000,000
Others (particularly the United Kingdom, Sweden, Switzerland)	900,000,000

Average term of outstanding debt is approximately 8 years.

Mr. McKinney. Do you feel that there is any truth—I do not know if you could answer this question if there were, but we can also get it on the record—do you feel there is any truth to the statement that our trade policies are not so much trade policies at the present moment as they are diplomatic policies? That is one of the reasons why we are not striking the best possible deal.

Mr. Sonnenfeldt. No, sir, I would not put it that way. I think our trade policies are a part of an overall policy which has political and security and military and various other facets to it. I do not think that that means that, for political reasons, we make bad economic deals.

Mr. McKinney. There are some in the Congress that feel that if Dr. Kissinger stated that we ought to sell Russia wheat for 90 cents, we would probably go right out and do it. In other words, you would not agree with that statement?

Mr. Sonnenfeldt. No, sir. If I may, Mr. McKinney, West Germany is the largest free world extender of credit, followed by France, and then the United States, Japan, and Italy are in approximately the same category after that. Although, the United Kingdom, Sweden, and Switzerland are the next.

Mr. McKinney. We heard testimony that the miniature ballbearing assembly equipment could be bought from Switzerland. Do you know if that is true?

Mr. Sonnenfeldt. I would have to check into that.

Mr. McKinney. Would you, please?

Thank you very much, Mr. Chairman; I yield back the balance of my time.

[In response to the request of Mr. McKinney, the following information was submitted for the record by Mr. Sonnenfeldt:]

Reply Received From Mr. Sonnenfeldt

Precision grinding machinery is available from Switzerland, Italy, West Germany, and Japan. For this reason the Department of Commerce decontrolled this machinery in 1972. It should be noted that the export of technical data covering the manufacture of sophisticated bearings is still controlled and no application for sales to Communist countries has been approved. Without this technical data it is not possible to produce the strategic range of bearings even with precision bearing grinders of a kind that had been sold to the USSR.

Mr. Ashley. Mr. Frenzel?

Mr. Frenzel. Thank you, Mr. Chairman.

I would like to inform the gentleman from Georgia that I was not here when the former prisoner testified. I read his testimony, but I did not query him about two-car garages or anything else. I am sorry I missed his testimony, because I thought at least his written presentation was instructive.

I think the witnesses can tell that there is some division of opinion up here on this subcommittee as to our trade policies and our foreign policies, with respect to both central Europe and the Soviet nation. I think that it is true, also, that we have a certain respect for each others' views, and I believe that we want to err on the side of safety in shipments to Russia. I do not think that we want to err on the side of foolishness, and manufacturers in my area believe that we have been overly strict on the COCOM list in not being able to negotiate changes in that list, and perhaps even more strict on our U.S. security restrictions. I

am not interested in seeing us change our way of living if we really believe that we are protecting ourselves. But I am interested in seeing our trading partners change their way of living, because I get the impression that they are willing to sell things which we are not willing to sell. Therefore, our American manufacturers are at a disadvantage.

So, I am just interested in your impression. One of our witnesses said, for instance, that the computer hardware market in central Europe is pretty filled because we have been so restrictive, that our friendly foreign competitors got in ahead of us. So, we are sort of restricted to selling software.

Is it your opinion that our policy has been reasonable?

Mr. SONNENFELDT. Without being very expert in this, Mr. Frenzel, I believe that it has been reasonable. We have been under some considerable pressure from American companies at various times, who have thought that they were in an unequal competitive position vis-a-vis some firms from other countries. I think, on the whole, we have struck the right balance.

Mr. FRENZEL. Thank you.

Mr. Blackburn mentioned the antidumping problem, and I think it is an important point. Would it not be true, if the foreign trade bill were passed, that we would have the opportunity to retaliate against third-market actions; that is, Russia or anybody else selling cheap in another market under the terms of that bill?

Mr. SONNENFELDT. I believe that is correct, sir, yes.

Mr. FRENZEL. It would not be a problem if that bill were passed?

Mr. SONNENFELDT. That is correct.

Mr. FRENZEL. Under our bilateral agreement, we are a little short of weaponry I understand, because we can't cover third markets. We do not want any stuff "dumped" in this country, or anywhere else, against our manufacturers. I have not seen that Russian tractor. It is supposed to be selling cheap; but I have some strong feelings as to how long it would take to get parts for that tractor. Part of our subcommittee was just down in Chile inspecting crates of Russian equipment which had been shipped there during the Allende heyday, never opened, never used, because there were no parts, and nothing to activate it. I supposed that someday, it will become part of their ferrous scrap supply.

Nevertheless, the gentleman from Georgia does make a good point, and we do want to be protected, and our employees and employers here want to feel that protection. Mr. Chairman, I yield the balance of my time.

Mr. ASHLEY. Mr. Blackburn?

Mr. BLACKBURN. I have no questions.

Mr. ASHLEY. Mr. Sonnenfeldt, we thank you very much for your testimony, which concludes the hearings before the Subcommittee on International Trade.

The subcommittee will stand adjourned, subject to the call of the Chair.

[Whereupon, at 4 p.m., the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

[The following material was submitted for inclusion in the printed record:]

STATEMENT OF HON. DAWSON MATHIS, A REPRESENTATIVE FROM THE STATE OF GEORGIA

Re proposed legislation to impose an embargo on all United States exports of fertilizer until the Secretary of Agriculture detemines that an adequate domestic supply of fertilizer exists.

Mr. Chairman, it is indeed a pleasure for me to testify before my colleagues who serve on this Subcommittee in behalf of the legislation which I introduced along with approximately 120 cosponsors. The legislation would impose an export moratorium on all fertilizer from this country until the Secretary of Agriculture determines that an adequate domestic supply exists.

I think it only fair to explain to the distinguished members of this Subcommittee why I introduced this legislation to begin with, because it went beyond my philosophy of free access in interational trade. As a member of the House Agriculture Committee, I have observed firsthand for the last three years how the Department acted when it wanted legislative authority to administer new agricultural programs. Instead of approaching the Committee members with the thought of requesting assistance to solve certain problems needing legislative authority, the officials of the Department would make statements to the press announcing hard line administraitve changes and then go on record that when we take these programs to the Hill (quote) the blood will flow (unquote).

Having learned this lesson very well, I decided that the only course of action that I could take under the circumstances to guarantee that my farmers, as well as the farmers all over this country, could get a decent supply of fertilizer would be to take the identical approach and introduce legislation which would place the Department of Agriculture in a position of publicly acknowledging the problem and taking actions to rectify it. My only regret, and one which I will appologize for, is that I could not have worded the legislation in order for it to have been placed under the Agriculture Committee jurisdiction.

I introduced the original legislation on February 13th of this year. At that time the reports I was receiving from the Department of Commerce was that exports of fertilizer was running ahead of the comparable figure of the previous year. At this same point in time the farmers in my district were informing me that when they could obtain fertilizer, it had suddenly become a cash transaction which I am sure the members of this Subcommittee can understand caused a problem with the farm operating loan program.

At this time the Department of Agriculture had never publicly disclosed the extent of the shortage and was still predicting a record crop year on all commodities. When I introduced my legislation originally with 54 cosponsors, the Department of Agriculture suddenly became aware of the problem, and I would like to submit for the record the remarks I made on the Floor of the House of February 26th which proves that the Department began acknowledging a problem actually existed.

FEBRUARY 26, 1974.

Mr. Speaker, it sometimes amazes me that after Congress focuses attention on the severity of certain problems, the Department of Agriculture is quick to acknowledge that a problem does exist even though they have repeatedly stated that no such problem exists.

Such a case is the extreme shortage of fuel and fertilizer for the 1974 crop year. At the present time my bill to impose an embargo on exports of fertilizer until the domestic supply is adequate has 60 cosponsors and apparently the Department is paying attention.

The press release from the Department of Agriculture dated yesterday states that nitrogen fertilizer is short in 29 states and tight in 15. It also states that phosphate and potash supplies were reported up somewhat from two weeks ago but phosphate was still short in 30 states and potash in 24.

I challenge Secretary Butz to reappraise the Department's estimates on total yields for the 1974 crop and to realistically approach this problem rather than painting rosy pictures to the American consumers.

After the introduction of my legislation which, eventually comprised approximately 120 cosponsors, the Fertilizer Institute began getting the message. At this point I would like to submit for the record a speech I made on March 25th on the Floor which will further show what action was being taken by the industry to protect itself against Congressional pressure.

SPEECH ON HOUSE FLOOR BY HON. DAWSON MATHIS OF GEORGIA

MARCH 25, 1974.

Mr. Speaker, as all my colleagues are well aware, the Fertilizer Institute in conjunction with all their members, is launching a major lobby effort against my legislation to place an embargo on fertilizer exports until a sufficient domestic supply has been guaranteed. As chief sponsor of this legislation, I feel I would be remiss if I didn't answer the charges being hurled at the Congress, particularly the 105 Members who cosponsored the legislation with me.

I want the members who comprise the Fertilizer Institute to know that Congress fully realizes the necessity for international trade, but this legislation was introduced to underscore the severity of the fertilizer shortage to officials in this Administration who can correct these problems. It has become increasingly apparent that many of the trade policies in which this Administration has engaged are working to the detriment of the United States and not to our advantage. I felt that only through such decisive action could the gravity of the problem be effectively conveyed to them. In the absence of such Congressional pressure, I feel the Department of Agriculture would have ignored the American farmer in this situation. In an earlier speech I stated that the Department never really acknowledged a problem until my bill had been introduced with 54 cosponsors. At that time they published a press release which stated that nitrogen fertilizer was short in 29 States and tight in 15. It also stated that phosphate and potash supplies were short in 30 and 24 states respectively.

In the March issue of Farm Journal, Mr. John Frazier, President of the National Grain and Feed Association said that the livestock industry's annual requirement for DI-Calcium Phosphate is about 1.6 million tons and the supply is only about 1.3 million tons. The manufacturers of this product state that they simply cannot manufacture without phosphoric acid. The absolutely incredible part of this is that the Commerce Department is predicting a 76.6 percent increase in exports of phosphoric acid for the first half of this year over the same comparable time in 1973. The second half of 1974 is predicted to be increased by 96 percent. I challenge the Department of Agriculture to prove the rationality of such proposals.

On March 18th I received a copy of a letter sent by the Central Resources Corporation of New York to the Fertilizer Institute, Secretary Earl Butz, and Dr. John T. Dunlop of the Cost of Living Council. The reference of the letter was to refute my legislation and was so headed. However, the entire first paragraph was an announcement, and I will quote directly: "We are pleased to advise you herewith that we have made our first sale of a shipload of approximately 10/15 thousand metric tons of compound fertilizer manufactured by our Dutch subsidiary. The shipment is about to be loaded on the S/S Bulk Pioneer in Holland for arrival in the United States in time for spring application season."

It is inconceivable to me that such a transaction could not have been made 8 weeks ago, and I seriously doubt that one would have been made at this point in time had it not been for pressure from Congress.

Mr. Speaker, I can think of no other sector of the nation of greater importance and dependence than agriculture. It is the basic industry of the entire nation and its preservation as a viable industry is crucial. The motivation behind the introduction of my legislation was and is to influence full recognition of this fact to the Secretary of Agriculture. The farmers in this country are desparately

searching for some indication of awareness and understanding on the part of the Department of Agriculture. This is made more difficult when the head of the Department seems to reflect the interest of large agri-businesses and large farming corporations. The small farmer needs an effective voice to speak for him and I can assure every Member of this House that my legislation is made in behalf of the small farmers who produce the majority of food and fibre in this country.

In addition to the facts in the inserted remarks, we were informed that in the middle of March of this year the Interstate Commerce Commission ordered 1,100 railroad cars diverted to Florida in a move to alleviate the phosphate situation. I was delighted with the news, but my question is, why couldn't it have been done last January?

The Fertilizer Institute made a verbal agreement on October 25, 1973, when they were exempted from wage and price controls that they would divert as much fertilizer products back into the domestic market as they could except where long-range export contracts had to be honored. I can agree with the long-range contract concept, but I still feel that the Fertilizer Institute did not fulfill their bargain when they were taking advantage of a much higher world price. I fully realize that the world price differential based on December prices still again shows a decided advantage of world prices over domestic prices, and it will be very interesting to see what happens after the 30th of June when the Cost of Living Council becomes defunct. I can assure the representatives of the Fertilizer Institute that the Members of Congress will be closely monitoring the situation.

Mr. Chairman, let me close my testimony by directing a remark to Mr. Ed Wheeler and I had about the problem. Mr. Wheeler's letter read (quote) Dear in your Subcommittee hearings last week to refute the increase of fertilizer supplies in the State of Georgia by simply quoting the latest correspondence Mr. Wheeler and I had about the problem. Mr. Wheeler's letter read (quote) Dear Congressman Mathis: Georgia from July 1st to February 28, 1974, shows an increase of delivered fertilizer tonnage up 62% over the same period a year ago. Wouldn't you agree that this is a commendable performance record? (unquote) My answer to Mr. Wheeler was (quote) I certainly agree that it is a commendable performance, but I wonder what the percentage might have been had it not been for Congressional pressure. (unquote)

I am not chastising Mr. Wheeler in any way, but the entire point I was trying to make in the introduction of my legislation was that it is time for the Department of Agriculture to realize that its projected figures are off base and to realistically approach the problem. Only by making the administrative changes necessary, which they are attempting to do since the introduction of my legislation, can the farmers of this nation produce the original yield productions as forecast by the Administration.

Thank you.

Statement of Hon. Tom Railsback, a Representative in Congress From the State of Illinois

EXPORT CONTROLS ARE NOT AN ANSWER

Mr. Chairman, Members of the Subcommittee, There is no easy answer to the serious fertilizer shortage we are now facing. You have an option before you that has been proposed by several Members—export controls—but I hope my statement today will help convince you that such action would not be the panacea it is proclaimed to be.

The critical situation in the Midwest is of particular concern to me. Over the past several months, I have heard from and met with many Illinois farmers who are facing real problems in obtaining fertilizer supplies. Small independent dealers are losing their usual allotments, and many of their customers are then faced with no sources of fertilizer at any prices. Those who are fortunate enough to obtain supplies are having to pay inflated prices. In fact, the total bill American farmers will pay this year is expected to be as much as $4 billion—nearly 40% higher than in 1973.

In March, the Department of Agriculture issued a discouraging report on the supply of fertilizer. This report showed nitrogen in the tightest supply position. A total of 44 States report a nitrogen shortage; 41 States indicate a phosphate

shortage; and 39 States report a potash shortage. Nearly all States reported shortages of mixed fertilizer.

These shortages are particularly discouraging since farmers are being urged to produce at an all-time high. 50 million acres have been brought back into production within 18 months. And yet, despite the eagerness for a record harvest, the supplies of fertilizer are somewhere between 5 and 15% short of current demand.

The fertilizer situation is even worse than it has to be in certain parts of the country because the distribution system is just not functioning efficiently. Shipments are not reaching their final destinations at the crucial time. I must say I was encouraged by Secretary Butz's request that the Interstate Commerce Commission designate 4,000 additional rail cars to transport fertilizer from Florida to the Midwest. But the response by the I.C.C. was discouraging. The agency allotted only 1,100 rail cars for this purpose. I would hope that more will be done to assure that transportation bottlenecks do not hinder the movement of available fertilizer supplies, reduce our harvest, and cause further increases in food prices.

There are several other solutions being proposed that Congress should also consider. As mentioned earlier, I am aware that pressure does seem to be building for imposition of an embargo on our fertilizer exports. Quite frankly, this type of action would be very damaging to the United States, and I hope any legislation along these lines would be rejected for a number of reasons.

First, and quite simply, an embargo would not provide relief for farmers this year. Any effort would really be too late as spring deliveries are already on site or moving to outlets.

Second, we are actually a net importer of fertilizer; that is, the U.S. imports more than we export. In an effort to solve the shortage by controls, the situation could become far worse.

Third, export controls could very easily run the risk of retaliation from other countries, such as Canada, Brazil, Netherlands, and Japan, who supply us with a long list of essential raw materials.

Fourth, a number of amonia plants are being built or planned in Canada, Mexico, and the West Indies. Such plants could very well help turn the U.S. situation around in years to come, and for that reason we wouldn't want to endanger our relations with these countries.

In addition, the United States has already voluntarily decreased its fertilizer exports in an effort to help our own farmers without placing a severe strain on U.S. international relations as would be caused by an embargo.

There are other better alternatives the Congres should be exploring.

As a partial, short-term solution to the fertilizer shortage, the industry should be encouraged to buy as much fertilizer as possible on the world market. Some fertilizer is available, though at prices substantially higher than U.S. prices. Perhaps to avoid large discrepancies in price between supplies that are imported and those produced by domestic plants supplies could blend their foreign and domestic supplies and average their prices.

Government agencies should also give high priority to the fertilizer situation as a piece of legislation I have introduced directs. The Federal Energy Office should assure fertilizer plants of fuel supplies, and the Cost-of-Living Council should be certain there are no cases of price gouging.

As a long-range solution, the Government must encourage expansion of the domestic fertilizer industry, especially the production of nitrogen fertilizer. Businessmen will not invest in the construction of new fertilizer plants and supplies until they are assured of a constant, adequate supply of natural gas—the basic ingredient from which nitrogen fertilizer is made.

Mr. Chairman, Members of the Subcommittee, in conclusion, I think it is clear that we in Government must rethink our programs in an honest effort to solve the fertilizer shortage. If we do not, the farmer, the consumer, and, indeed, our entire economy will suffer. However, I urge the Subcommittee not to approve export controls for the reasons I have detailed here today.

I thank you all very much for providing me with this opportunity to submit my thoughts on an issue not only of concern to me, but to so many of the people in the 19th District of Illinois that I am proud to represent.

Statement of Hon. Tom Railsback, a Representative in Congress From the State of Illinois

FERROUS SCRAP SHORTAGES

Mr. Chairman, Members of the Subcommittee, I commend you for holding these hearings on export legislation, and greatly appreciate your providing me with this opportunity to discuss a problem of particular concern to me and many of the people I represent.

As you may know, for the last several years, I have served as a Member of the International Economic Task Force. My work there has again and again reaffirmed my position in favor of free trade. In general, I have always been opposed to restrictive controls. They have far too often been imposed in the guise of assisting our country, the businessman, and the consumer; but, in effect, they run the risk of retaliation by other countries from whom we must obtain various raw materials. It has seemed to me that it is generally in our own best interests to work toward open trading practices among countries.

Therefore, you can well imagine that I very carefully and thoroughly reviewed the situation surrounding ferrous scrap. I was aware that our inventories were lower than any period since the Second World War, and that the shortages resulted in sky-high prices. However, it was not until I corresponded and met with several individuals from Illinois who have been adversely affected by the scrap shortages did I realize how very serious the matter is.

These individuals pointed out that not much of our scrap has ever been under price controls, and thus the intense demand for more scrap has pushed prices to an all-time record. In fact, prices have more than doubled in many cases in just the past twelve months. Prime industrial scrap now costs at least $130 a ton.

On the other hand, U.S. exports have increased over 11% since 1973. It is somewhat surprising that our country is the only industrialized nation that has not developed a comprehensive program to implement in times of scrap deficiets. Japan, for example, generally forbids any exports of scrap except when the home demand is low.

I know that some actions have been taken by the Department of Commerce, including careful monitoring of exports, and the quarter-export limitation. However, many companies are still complaining these actions have not been sufficient to remedy their problems.

For that reason, I have introduced legislation that would place a temporary limitation on exports of ferrous scrap. Such action would give us the time to formulate better government policy in this area.

Mr. Chairman, I would hope your Committee will give consideration to this type of approach. In addition, I would like to have included in the hearing record letters from some of my constituents who have written me about ferrous scrap. I think their letters will even more articulately point out the seriousness of the ferrous scrap shortages:

Conco Inc.,
Mendota, Ill., February 12, 1974.

Hon. Thomas F. Railsback,
Cannon House Office Building,
Washington, D.C.

Subject: Iron and Steel Scrap.

Dear Mr. Railsback: Conco Inc. in addition to its other products is a manufacturer of overhead cranes and automated warehousing systems and is highly dependent upon reliable sources of structural steel. It has been brought to our attention that Iron and Steel Scrap, which is used by many of our country's steel mills, is selling for $115.00 a ton in Pittsburgh. A year ago this was selling for $46.00 a ton. When we are at a period in time of being inflationary conscious, it is very difficult to accept the possibility of the tripling of the price of scrap in one year. In addition to the inflation, we are also limiting the number of sources we have available to supply these structural shapes and sizes that we so badly need for our industry. Right at this very moment the shortages of products required to manufacture our equipment makes it very difficult for us to continue production on a regular basis day by day.

We question why we continue to export scrap at the rate of 7 to 8 million tons a year when we are aware of the great demand that is not being filled right here in our own country. We would appreciate your efforts in seeing that something is done to correct this problem at once. We appreciate the fact that we have to

live in a world market and help as well as benefit from the trade with other countries, however, since everything is on allocation we believe that greater emphasis should be placed on the needs here at home.

Very truly yours,

J. J. LORDAN,
Assistant Manager of Purchases.

MARCH 2, 1974.

Hon. THOMAS F. RAILSBACK,
Cannon House Office Building,
Washington, D.C.

DEAR MR. RAILSBACK: In behalf of the company I work for, Northwestern Steel & Wire Co., located in Sterling, Illinois, I would like to call your attention to the feelings of the company and the four thousand employees, who depend on their livelyhood from this company.

We are a fully integrated steel company and are solely dependent on scrap iron for our electric furnaces. We have, in the period of only a few months, seen the price of this scrap iron raise from approximately $26.00 per ton, to the present $120.00 per ton and are finding it exceedingly hard to buy scrap at any price. Now the State Department says they intend to export in excess of 9,000,000 tons to our friends overseas, namely Japan. We are told that we must do this to keep their mills running or they will be in danger of an outage in their steel industry.

If something doesn't happen in our own country there is no doubt there will be an outage here, and apparently it will take this tye of catastrophe to awaken the present advinistration to realize the seriousness of the scrap iron problem in the USA. We have approximately fifty day's inventory of scrap and every day our inventory becomes less, because at those unbelievable prices we are unable to purchase the scrap to feed our electrical furnaces.

We have tried to absorb the 104% increase in fuel oil, we have spent in excess of $10,000,000.00, for pollution controls in the past five years, we have watched the prices of castings, brick refractories, bolts, nuts, all the thousand and one things it takes to operate a steel mill, rise from 15% to 75% in the past two years. We have accepted this and have managed to stay in business, but unless this administration does an about face, and places an embargo on scrap exports, this company and many others in the steel industry will be unable to do so. We must join in world trade but must trade from strength, not weakness.

Sincerely,

C. H. FISHER, Jr.,
General Superintendent of Rolling Mills.

STERLING, ILL., *January 25, 1974.*

Hon. THOMAS F. RAILSBACK,
Cannon House Office Building,
Washington, D.C.

DEAR MR. RAILSBACK: The price of ferrous metal scrap has recently skyrocketed to over $100 per ton in Pittsburgh and now apparently Chicago. A year ago at this time scrap was selling for $46 per ton. At this new price domestic steel mills cannot operate profitably even with the current scrap surcharges. Demand for our type of steel products is at an all time high domestically and world wide. Likewise, demand for steel scrap by producing mills is extremely strong. Complicating this demand problem is the fact that the supply of scrap has been undermined by exports. In 1972 U.S. scrap exports totalled 7 million tons and in 1973 we exported 12 million tons. First quarter 1974 licenses show 2.1 million tons with a 1973 overflow of .6 million ton scheduled to be exported. Some legislation has been taken to limit the exportation of steel scrap by licensing but this does not go near far enough based on today's market conditions. As I see it we need a temporary total embargo on steel scrap exports. This is the only way the price and the supply/demand problem of this basic raw material can reach an equitable equilibrium.

Very truly yours,

RAY P. BAUER.

NORTHWESTERN STEEL AND WIRE CO.,
Sterling, Ill., March 12, 1974.

Hon. THOMAS F. RAILSBACK,
Cannon House Office Building,
Washington, D.C.

DEAR MR. RAILSBACK: Following up our President, Martin Dillon's, conversation with you last Friday at the candidates' dinner, I will try to set out facts, figures and articles which should be of help to you in understanding the very serious nature of our ferrous scrap shortage. I was sorry I could not be at the dinner to see you, but I did have a conflict.

Attached are charts from the U.S. Department of Commerce—A, B, C, and D. On Charts A & B, the actual exports were approximately 11,300,000 tons for 1973. Updating Chart D showing ferrous scrap prices, they have now more than doubled from just under $60.00 per ton shown on this chart. This may be observed on the sheets attached from Iron Age—March 11, 1974 issue. In 1973, domestic consumption was approximately 44,000,000 tone with exports of 11,000,000 tons, giving a total of around 55,000,000 which is the largest number of tons of ferrous scrap ever produced in the United States. It can be well noted that we are the only country in the World allowing scrap exports Last year, ferrous scrap exports climbed nearly 60% while domestic purchases by mills and foundries rose only 3.4% from the prior year. The fantastic rise in scrap prices is obviously due, in large part, to the record 11.3 million tons of scrap exported in 1973. As you well know from copies of our telegrams and letters sent to the Department of Commerce, the Cost of Living Council, the State Department and the White House over the past fourteen months, we and the rest of the ferrous scrap consumers have been very concerned. This concern has been borne out by high prices and ferrous scrap shortages. Our warnings went unheeded. Apparently, it is the desire of the State Department to maintain the status quo on exports so as not to upset "our friendly countries". The Commerce Deparment has offered licensing of 2.1 million tons for the first quarter of 1974, and the same tonnage for the second quarter of 1974. Annualized plus carryover from 1973, would be exports of close to 9,000,000 tons. If half of this 9,000,000 tons were available to domestic mills, our position would not be so critical. It will, however, take many months to again fill up the pipe lines. It is ironic that our domestic steel makers should have to curtail operations letting "our friendly countries" operate with our raw material making steel to ship back to our country at a premium of about $100.00 a ton over domestic prices. This, alone, is very bad for our balance of payments.

Coming back to Northwestern Steel and Wire Company which is our immediate concern, enclosed you will find the scrap inventory sheet showing that in December, 1972, we had a ferrous scrap inventory of 357,675 tons which, as of the end of February, 1974, has dwindled dramatically to 75,916 tons.

The latter figure represents about 21 days of scrap on hand. This is a dangerous situation. Our inventory has continued to decline in this month of March. This sheet shows, by subtraction, that we have lost inventory, in the period shown, of 281,759 tons. You will note that we were only able to buy our monthly melt in one month of the past 14 months.

Northwestern Steel and Wire Company employs approximately 4,000 people. If we are forced to curtail operations because of the unavailability of sufficient scrap to melt in our furnaces, unemployment in our area will increase dramatically.

Also, enclosed find articles setting out the seriousness of the ferrous scrap situation.

As to a conclusion and solution of this problem, there is only one way to go and that is a complete, immediate embargo on all scrap exports. As with oil, this, too, would take a long time to correct itself. We hope you can be effective in the solution of this problem.

Regards,

JACK W. BOWMAN,
Executive Vice President.

CHART A

TOTAL SALES OF U.S. FERROUS SCRAP 1968-73

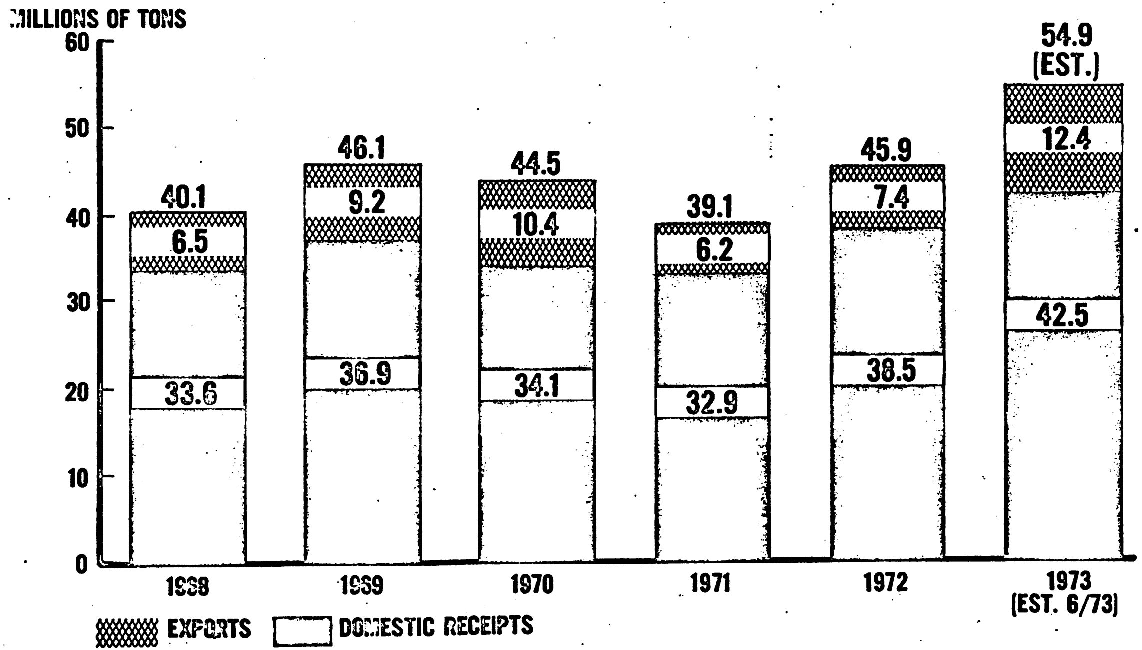


CHART B

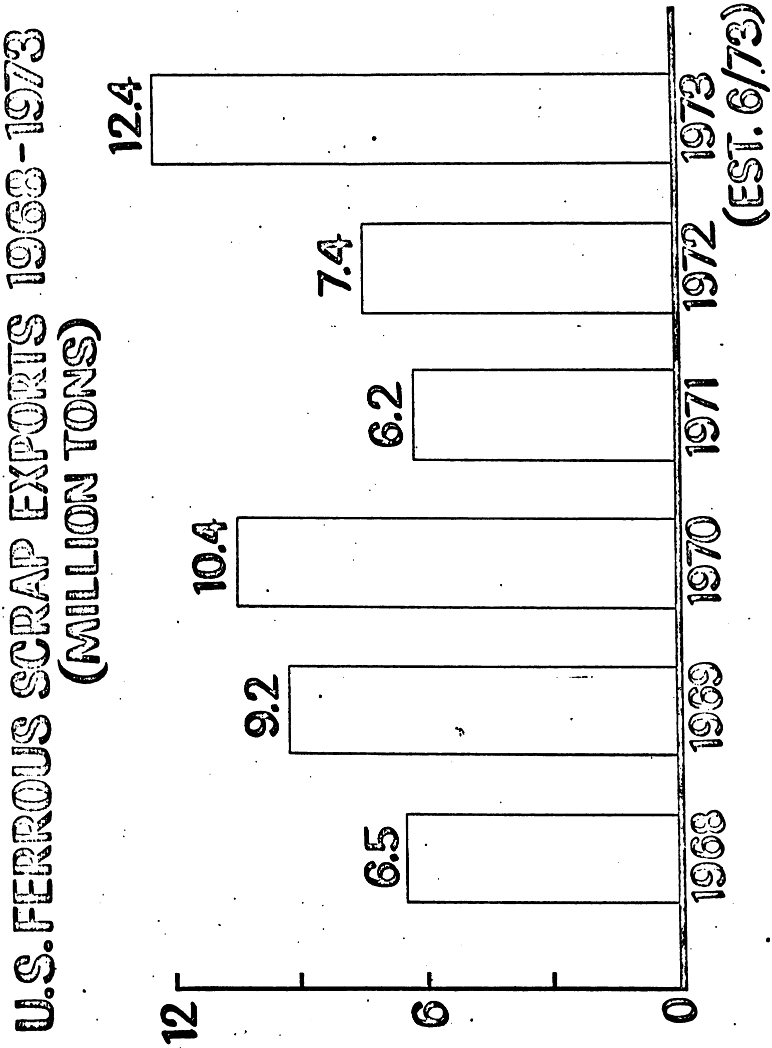

U.S. FERROUS SCRAP EXPORTS 1968-1973
(MILLION TONS)
12
6
0
6.5
9.2
10.4
6.2
7.4
12.4
1968
1969
1970
1971
1972
1973
(EST. 6/73)

CHART C

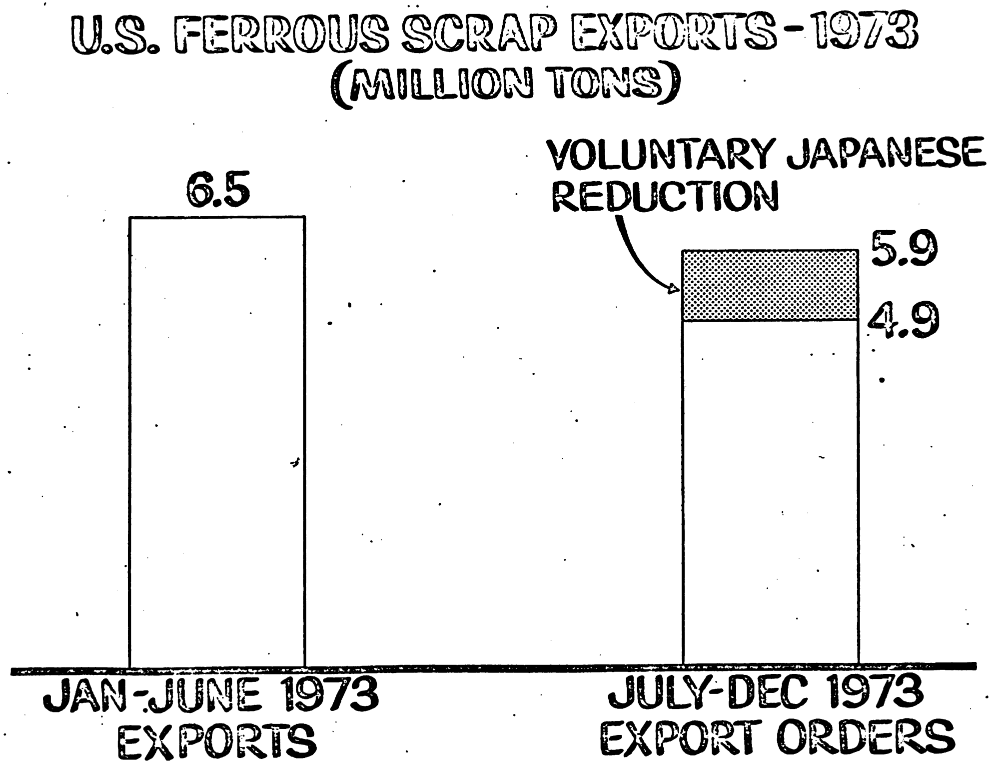
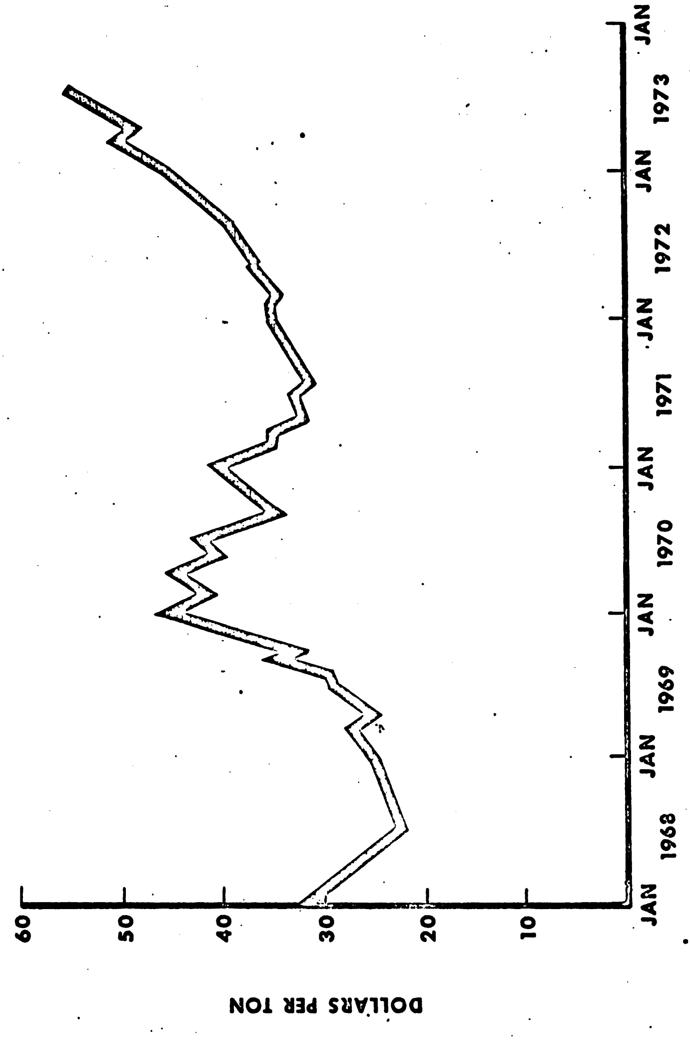

U.S. FERROUS SCRAP EXPORTS - 1973
(MILLION TONS)
6.5
VOLUNTARY JAPANESE REDUCTION
5.9
4.9
JAN-JUNE 1973 EXPORTS
JULY-DEC 1973 EXPORT ORDERS

CHART D

FERROUS SCRAP PRICES
(COMPOSITE PRICE, NO. 1 HEAVY MELTING SCRAP)



[From IRON AGE, March 11, 1974]

SCRAP SHORTAGE MAY AFFECT STEEL OUTPUT SOON; STEELMAKERS ALSO WORRY ABOUT ITS HIGH PRICE

New York—Steel production may soon be cut as a result of the ferrous scrap situation, IRON AGE says.

Mill officials say they are reaching the point where there isn't enough scrap to go around. Officials say prices have reached a level that makes it unprofitable to convert scrap into steel.

Last week, the IRON AGE composite price for No. 1 heavy melting steel, a key market grade, rose to $177.50 a ton. This was an increase of about $47 a ton over the past month. And the current price is nearly two-and-a-half times the $48.50 a ton a year ago.

With regard to the shortage, steel men say an additional 8 million tons of scrap will be needed this year to make up for reduced blast furnace output. The scrap export quota of 2.1 million tons a quarter won't leave enough ferrous material for domestic production, it's argued.

The scrap price situation is considered equally critical. Prime industrial scrap is now selling for $130 a ton or better. That's just about the price of carbon steel in slab form.

With conversion costs figured in, says the treasurer of a large steel company, a mill can lose up to $40 a ton on slabs made from scrap. No steel product can be made at a profit from scrap, he says.

"How long is a steel company going to trade dollars?" he asks.

The answer, he indicates, will depend on two judgments: How long will scrap prices stay up? And how long will steel prices be controlled?

In the interest of serving customers, companies may maintain production if they think the squeeze will last only a few months. However, steel men fear scrap prices will be going up before they come down.

How much steel output could be affected by the scrap deficit is a question. Last year's total included 83 million tons of steel from oxygen vessels. Oxygen furnaces normally use only 30 pct. scrap, which is the amount generated within a steel plant.

IRON AGE points out that electric furnaces, which run entirely on scrap, turned out over 27 million tons in 1973. Openhearths, which use varying mixtures of scrap and hot metal, accounted for nearly 40 million tons.

With the supply of molten iron limited, companies can only increase production by purchasing more scrap for openhearths and by operating electric furnaces at peak rates. In the period when scrap prices were low, many of the big mills put in high volume electric furnaces. When the steel market took off last year, electric furnace output rose by 4 million tons.

NORTHWESTERN STEEL & WIRE CO., SCRAP INVENTORY

DECEMBER 1972 THROUGH JANUARY 1974

	Inventory (Net tons)	Monthly gain or (loss)	Percent gain or (loss of inventory)
Total	357,675		
1972:			
December	335,352	(22,303)	(6.2)
1973:			
January	330,772	(4,580)	(1.4)
February	317,486	(13,286)	(4.0)
March	298,040	(19,446)	(6.1)
April	296,789	(1,251)	(.4)
May	245,421	(51,368)	(17.3)
June	245,282	(139)	
July	253,388	8,106	(3.3)
August	235,974	(17,414)	(69)
September	206,260	(29,714)	(126)
October	178,745	(27,515)	(13.3)
November	141,933	(36,812)	(20.6)
December	139,116	(2,817)	(2.0)
1974:			
January	108,545	(30,571)	(22.0)
February	75,916	(32,629)	
Total		(249,130)	
		(281,759)	

Electric Furnace Orders Mounting; Mini-Mills Hot

(By Jack Thornton)

Cleveland.—Order placement for new capacity in electric furnaces in the steel industry is showing a significant increase according to executives of Union Carbide Corp.'s Carbon Products division here.

The busiest market right now is bar mills, or mini-mills. At least a half-dozen are under construction, accounting for 20 to 30 new electric furnaces, said James W. Brown, director of market development for arc furnaces.

Brown was interviewed at the division's Technical Center in suburban farms.

The bar mills, he said, are "heading for a new plateau" which should be reached within two years. The bar mills' big brothers, the fully integrated units, are moving more slowly, however.

Brown pointed out that bar mills feed their furnaces almost exclusively on ferrous scrap. They are expanding, in the face of a shortage of ferrous scrap. That's because the market is so strong for bar products, Brown said.

The strong-demand has brought pleas from users for more capacity. In fact, the United States and the whole world are steel growth markets. H. B. (Burny) Allport, director of electric furnace technology here, pointed out that the U.S. became a net steel exporter again in 1973.

With market conditions like these, electric arc furnace steelmaking is "entering an era of unprecedented opportunity," said Brown.

Union Carbide has computed that, despite the energy crisis, oil, natural gas and coke still accounted for 81.8 percent of 1973's domestic steel production. Oil, natural gas, and its man-made substitutes, and metallurgical grade coal are all in tight supply. Electricity, however, seems still plentiful.

Brown believed that the energy crisis will force steelmakers to pay much more attention to their fuel costs and to fuel availability. When they do that, he contended, they will turn in increasing numbers to electric arc furnaces.

Brown said that 27.4-million tons of steel was produced in electric furnaces in the U.S. last year—18.2 percent of all domestic-made steel.

That was a jump of 16.6-percent from 1972's electric production of 23.5 million tons, Brown said. He said that in the preceding year, the industry had overcapacity and the share of steel from electrics was flat at about 20 million tons a year.

He said 1973's sudden gain was the utilization of idle capacity. In addition, many recent furnace installations got through their learning curves and into full production in 1973.

Brown foresaw the electrics operating at full capacity through this year. Beyond that, Brown added, "We will definitely see the pulling out from drawers of the capacity studies."

But expansion plans from the big steelmakers have so far only been "serious looking," Brown conceded. These looks haven't turned into orders yet.

"If communication between the steelmaker, foundryman and the electric utility company is good," Brown continued, "then sufficient power will be available for steel." He noted that the communication must allow enough time for the power company to gear up production and it must assure an adequate return on investment for the steelmaker.

Looking at his likeliest carbon and graphite electrode markets, Brown said:

The "mini-mills" can be expected to double their output by the end of the decade. This group is the most active in the furnace order books.

The only thing that threatens electric furnace steelmaking is the availability of scrap. For instance, despite high domestic prices, about 10.9-million short tons of scrap were exported in 1973.

Incremental capacity orders will be forthcoming soon from the big steelmakers. In recent years, all of the biggest firms have put in at least one or two electric furnaces. (Incremental tonnage, Brown contended, puts blast furnaces out in the cold. A typical new blast furnace would produce 3-million tons of iron a year, a whopping "increment" for any American steel firm.)

The Carbon Products division is boosting its output of graphite electrodes for steelmaking and similar uses by 20 percent at plants in Columbia, Tenn., and in Puerto Rico.

The larger steelmakers have been slow to adopt electric furnaces, with the notable exception of Armco Steel Corp. which melts well over 40 percent of its steel in electrics. There are half-a-dozen steelmakers pouring carbon steel (not alloys or specialties) in electric furnace shops with 1-million-ton-a-year capacity.

Brown thought a big reason for the coming growth in electric furnace use by large carbon steel producers is lower cost. His figures are a $25 to $30 savings per ton per year even in a 100-percent scrap-based shop with no investment in direct reduction.

He also noted that a comparison on a fully integrated basis would be a 30-percent savings for electrics. Brown said the blast furnace-basic oxygen shop-coke oven complex would cost nearly half again as much as would an electric furnace shop using direct reduction.

The big cost differential, he added. is in the coke oven—and those facilities have been a sore point with pollution-control agencies.

Brown also pointed out that a conventional integrated steel plant requires five years to build, while a "greenfields" electric steel shop could be done in three. The furnaces alone take two years to install, Brown noted, including the current 54-week quotation on transformers. That's the longest-lead-time item, he added.

Cleveland—Current figures on consumption of carbon and graphite electrodes range between 10 and 12½ pounds per ton of steel, executives at Union Carbide Corp.'s Carbon Products Division Technical Center here say.

They feel that 12-pounds per ton of steel is the most typical figure.

H.B. (Burny) Allport, director of electric furnace technology, said there have been a host of incremental breakthroughs in recent years extending electrode life. But nothing outstanding has been achieved in any short recent period.

Steelmakers complain that electrodes do not last long enough, but William Lubbeck, manager of electric furnace technology here, said the "biggest factor is the human element"—how the furnace operator does his job.

The condition of the scrap charge and the method of charging are also big factors, added Lubbeck.

"But the great majority of the failures are simply not our fault," he continued.

RESEARCH PUSHED

Lubbeck said a large number of people at the research center here are working on extending electrode life.

They are also working on UHP electrodes. In industry those letters stand for ultra-high power, but Union Carbide likes to call it ultra-high productivity.

James W. Brown, director of market development for arc furnaces, said 90,000 to 100,000 amps per phase are now used in 50-to-70-megawatt furnaces with 200-

The UHP graphites cost about 15-percent more than regular electrodes, Brown added, and the trend to higher furnace capacity will continue.

Lubbeck said, "All you need is the power. We will be ready with the electrode."

The UHP graphites cost about 15-percent more than regular electrodes. Brown said. He believed their higher productivity more than offsets the higher cost.

Carbon products makes basically two types of electrodes, carbon for ferro-alloys and most nonferrous metals, and graphite for steel melting. Graphite is a heat-treated crystalline form of carbon.

Pittsburgh—The fire under the scrap iron price boiler still burns fiercely, pushing the numbers on most grades even higher.

Both buyers and sellers in this area agree that the prevailing quotations on No. 1 heavy melting, the bellwether grade, are in the range of $115 to $120 a gross ton delivered on the basis of recent business, but that even higher tags are in the making.

One large buyer contended that $130 is likely when new buys are made.

Prices have advanced on some other top grades also as a result of recent mill buys. No. 1 dealer bundles are quoted in the range of $140 to $145 a gross ton—pretty much in line with the prices obtained for factory bundles earlier this month.

No. 2 dealer bundles are in the range of $70 to $75, with the $70 paid by one large consumer for "local" bundles and $75 quoted on "better" bundles delivered into this district by river barge.

The winning bids on the railroad scrap lists offered this month have been higher, as expected. On scrap steel wheels, one carrier obtained $156 a gross ton.

Crop rail is being sold in the range from $150 to $160 a gross ton.

Stainless steel scrap also is moving up, with most brokers trying to obtain at least $440 a gross ton for 18–8 bundles and solids.

There is little or no evidence that the continuing price rise is bringing out more scrap.

Buyers complain, in fact, that the supply currently is as tight as it was when the average-price was $50 a gross ton less.

All concerned also continue to blame transportation difficulties for much of the trouble. The main problem is freight cars, especially gondola and hopper cars. Shippers compete in every way possible.

Steel Shortage a Headache for Everyone

(By Jack Thornton)

CINCINNATI.—The scarcity of steel is the unanimous choice of the steel distributing fraternity here for causing their biggest headache, whether the firm does $2-million a year in business or more than $20-million.

Everything is tight but sources indicated that there is a rule of thumb on tightness—whatever is least profitable to the steel mills is tightest. That works out to the greater amount of processing per pound of metal, all other things being equal.

Shortages are persisting in several forms of flat-rolled sheet and coil and the much-headlined downturn in automotive production seems not yet to have altered the supply picture much.

INVENTORY WOES CITED

The distributors cite continuous woes with scanty inventories but report that profits are being helped by the current seller. So, while they are struggling, at least it is rewarding, financially. Some firms indicated this was a pleasant change.

The distributors also reported they have a lot of new customers pushed into their arms by the steel mills which demand ever larger minimum orders. By and large the distributors expect to keep very few of these buyers.

And one executive, David P. Miller, vice-president of Cleveland's Universal Steel Co., believed that the steel mills are already coming back for some of his new-found customers.

DETROIT SELLING STEEL

That is one of the very few indications so far that the flat-rolled sheet and coil market is loosening.

There was one other indication—reports that auto makers are selling their unused steel. Some executives said automakers were selling metal to their suppliers in the stamping industry. Others said it was going in unknown quantities to the broker market. Richard Smith, executive vice-president at Best Steel Corp., Cleveland, said he has bought some metal from the automakers.

This newspaper also talked with Roy Adams, president of Frank Adams & Co., Cincinnati, which has sales of about $2-million to $3-million a year. So does Best Steel. Best, Universal and Independent are flat-rolled oriented, while Adams is predominantly a plate and structurals house.

In tightest supply are:

Hot rolled and hot rolled and pickled;

Hot rolled and galvanized sheet and coil;

Hot-rolled sheet in gauges heavier than those used in the auto industry;

Cold-rolled sheet 16-gauge and up;

Plate up to half an inch thick;

Small structurals 20-pounds a foot and under.

Pricing was not considered a major problem by these firms. Since they generally buy in large quantities and do normally mix steel from different suppliers, they do not have many pricing headaches, other than keeping track of surcharges.

By and large, the distributors take the mill price and add on any surcharges and their customary markup. Since they are in a seller's market, customers are happy just to get metal. Still; "We now have four prices where we used to have one," said Smith at Best.

WHAT'S AHEAD

What is ahead? Distributors don't agree.

"This is the first time in 25 years in this business that autos took a big slowdown and steel is not coming out of everybody's ears," said Independent's President William F. Grady. He said the mills are either catching up or exporting with whatever slack automotive has left in the marketplace. Inventories "are a fooler," Grady added, because they are so lean.

Adams in Cincinnati thought "the whole thing will come to a head in the next 90 days" and that more steel is sure.

Grady, however, believed that pickled-and-oiled steel will stay tight.

COOL TO NEW BUYERS

Meanwhile all the distributors are taking a very wary stance toward the new buyers that have been forced on them.

THE ULTIMATE IN INFLATIONS A $200-A-TON MARKET?

Would you believe a $200-a-ton market?

The probability is becoming more and more credible every week.

In major markets like Chicago, Philadelphia and Pittsburgh, dealers and brokers aren't batting an eyelid at $135–$140 price tags.

In fact, with the present shortage of good scrap going hand in hand with heavy demand from the steel and foundry industries, the prices are expected to rise even higher.

And now that mills and foundries can pass along the higher price of their scrap purchases in finished products, they are doing just that to ensure adequate supply.

The pressures of paying $100-plus a ton have been somewhat reduced.

One thing that hasn't changed, however, is availability. There just isn't enough top grade material around and mills, particularly, are falling over themselves to get their share.

Add to this the tremendous shortage of railcars and it isn't surprising that prices have gone out of sight.

The pattern is not just confined to the major trading areas . . . Buffalo, Houston, Birmingham, and almost every other market has posted increases of $8–$20 a ton.

Philadelphia paced the big areas with a number of big increases, including a $5, No. 1 heavy melting adjustment.

"The market is super-strong," says a large dealer. "Whatever scrap we have moving is attracting top dollar."

Philadelphia's cast and turning grades hit their peaks for the year with demand far outweighing supply.

The Pittsburgh market that was already strong received another boost when steel mills were authorized to pass through scrap costs on a monthly basis.

Earlier, the government had taken the lid off industrial scrap prices and local auto bundles were sold directly to the mill at a price that was said to be over $140.

No one can see an end to the spiral that keeps gaining momentum. But with the big scrap prices now spilling over into steel markets, the day of the big correction may not be far off.

At the moment, Pittsburgh is looking for more of the same.

The Iron Age composite price for No. 1 heavy melting—which sets a new record just about every week—increased $5.00 to the all-time high of $117.50.

The No. 2 bundles composite also hit a new record, jumping $3.34 to a new total of $66.67.

Record-breaking prices continue in the Ohio market as well as in Detroit and Canada.

There is no sign of a letup anywhere and sources are talking about further hikes of as much as $10.

PRICE AND PRODUCTION DATA—DISTRICT STEEL PRODUCTION INDEXES
[1967=100]

	Last week	2 weeks ago	Month ago	Year ago
Northeast coast	101.0	102.0	103.0	106.0
Buffalo	80.0	74.0	93.0	91.0
Pittsburgh	115.0	113.0	119.0	116.0
Youngstown	120.0	120.0	120.0	123.0
Cleveland	131.0	137.0	129.0	134.0
Detroit	120.0	119.0	123.0	113.0
Chicago	134.0	135.0	127.0	131.0
Cincinnati	120.0	126.0	125.0	136.0
St. Louis	138.0	141.0	129.0	140.0
Southern	136.0	132.0	133.0	130.0
Western	109.0	109.0	110.0	112.0
U.S. index	118.5	118.3	118.9	119.6

Source: American Iron and Steel Institute.

LAKE SUPERIOR ORES

51.50% Fe Natural delivered lower Lake ports, based on rail transportation handling and unloading charges in effect since 1/1/73.

Coarse ore .80 premium and fines, .45 allowance. Prices listed include transportation charge increases of respectively—20¢, 20¢, 20¢ and .3¢.

Old range, non-bessemer	Gross-ton	$12.16
Mesabi, regular-unscreened	Gross-ton	$11.91
High Phosphorus	Gross-ton	$11.91
Pellets (per iron unit natural [1])	Gross-ton	0.294–0.30019

[1] Hanna Mining (Oct. 1, 1973) and Pickands Mather at 0.30019; Cleveland Cliffs and Oglebay Norton at 0.294.

STEEL PRODUCTION, COMPOSITE PRICES

	Last week	2 weeks ago	To date 1974	To date 1973
Production: Net tons (in thousands)	2,891	2,887	25,078	24,753
Production index: (1967=100)	118.5	118.3	118.0	116.4
	This week	Week ago	Month ago	Year ago
Composite prices:				
Finished steel base [1] (cents per pound)	9.480	9.480	9.480	9.363
Pig iron (net ton) [2]	$79.44	$79.44	$78.16	$78.16
Scrap No. 1 heavy [3] (gross ton)	117.50	112.50	102.83	48.17
No. 2 bundles	66.67	63.33	56.17	35.33
Scrap comparison (gross ton):				
No. 1 steel, Pittsburgh	119.50	109.50	99.50	48.50
No. 1 steel, Philadelphia	113.50	108.50	94.50	49.50
No. 1 steel, Chicago	119.50	119.50	114.50	46.50
No. 1 bundles, Detroit	130.50	104.50	93.50	43.00
Low phosphorus, Youngstown	144.50	114.50	104.50	53.50
No. 1 machinery cast, Pittsburgh	99.50	89.50	79.50	51.50
No. 1 machinery cast, Philadelphia	124.50	98.50	98.50	59.50
No. 1 machinery cast, Chicago	124.50	124.50	119.50	69.50

[1] Finished steel composite. Weighted index of steel bars, shapes, plates, wire, rails, black pipe, hot and cold rolled sheets and strips.

[2] Pig iron composite. Based on average for basic iron at Valley furnaces and foundry iron at Chicago, Buffalo, the Valley and Birmingham. Plus, as of Feb. 19, 1973, prices changed to net tons. To obtain gross ton equivalent multiply by 1.12. (gross ton equals 2,240 pounds.)

[3] Steel scrap composite. Average of No. 1 heavy melting steel scrap and No. 2 bundles delivered to consumers at Pittsburgh, Philadelphia, and Chicago.

FERROUS SCRAP PRICES

[Effective Mar. 4, 1974. Prices obtained in trade based on representative tonnages per gross ton delivered to consumer unless otherwise stated]

	From—	To—
Pittsburgh:		
No. 1 heavy melting	$119	$120
No. 2 heavy melting	89	90
No. 1 dealer bundles	134	135
No. 1 factory bundles	144	145
No. 2 bundles	71	72
No. 1 busheling	139	140
Machine shop turnings	37	38
Shoveling turnings	40	41
Cast iron borings	38	39
Low phosphate punchings plate	140	141
Heavy turnings	69	70
No. 1 RR. heavy melting	134	135
Rails, 2 ft. and under	131	132
Scrap rails, random length	129	130
RR specialties	134	135
No. 1 machinery cast	99	100
Cupola cast	89	90
Heavy breakable cast	69	70
Stainless:		
18–8 bundles and solids	415	420
18–8 turnings	315	320
430 bundles and solids	90	95
410 turnings	35	40
Chicago:		
No. 1 heavy melting	119	120
No. 2 heavy melting	109	110
No. 1 dealer bundles	122	123
No. 1 factory bundles	139	140
No. 2 dealer bundles	59	60
No. 1 busheling	124	125
Machine shop turnings	36	37
Mixed borings and turnings	37	38
Shoveling turnings	39	40
Cast iron borings	64	65
Low phosphate forge crop	147	148
Low phosphate punchings plate ¼ inch and heavier	149	150
Low phosphate 2ft and under	144	145
No. 1 RR heavy melting	124	125
Scrap rails, random length	129	130
Reroller rails	144	145
Rails, 2 ft and under	144	145
Angles and splice bars	126	127
RR. couplers and knuckles	126	127
RR. car axles	131	132
No. 1 machinery cast	139	140
Cupola cast	134	135
Cast iron car wheels	99	100
Malleable	109	110
Stove plate	107	108
Steel car wheels	126	127
Stainless:		
18–8 bundles and solids	420	425
18–8 turnings	300	305
430 bundles and solids	80	85
430 turnings	25	30
Philadelphia:		
No. 1 heavy melting	112	115
No. 2 heavy melting	87	90
No. 1 dealer bundles	126	128
No. 2 dealer bundles	68	70
No. 1 busheling	126	124
Machine shop turnings	24	25
Mixed borings and turnings	24	25
Cast iron borings	40	42
Shoveling turnings	40	42
Clean cast chemical borings	21	22
Low phosphate 5 ft and under	124	126
Low phosphate 2 ft punchings	132	135
Electric furnace bundles	131	132
Heavy turnings	70	71
RR specialties	129	130
Rails, 18 in and under	99	100
Cupola cast	88	90
Heavy breakable cast	70	72
Cast iron car wheels	89	90
Malleable	53	54
No. 1 machinery cast	124	125

	From—	To—
Detroit (brokers buying prices per gross ton on cars):		
No. 1 heavy melting	$89	$90
No. 2 heavy melting	55	56
No. 1 dealer bundles	130	131
No. 2 bundles	54	55
No. 1 busheling	128	129
Drop forge flashings	89	90
Machine shop turnings	12	13
Mixed borings and turnings	17	18
Shoveling turnings	23	24
Cast iron borings	25	26
Heavy breakable cast	53	54
Mixed cupola cast	71	72
Automobile cast	79	80
Stainless:		
18–8 bundles and solids	370	380
18–8 turnings	295	305
430 bundles and solids	85	90
Youngstown:		
No. 1 heavy melting	120	121
No. 2 heavy melting	104	105
No. 1 dealer bundles	144	145
No. 2 dealer bundles	70	71
Machine shop turnings	26	27
Shoveling turnings	38	39
Low phosphate plate	144	145
Cleveland:		
No. 1 heavy melting	105	106
No. 2 heavy melting	69	70
No. 1 dealer bundles	129	130
No. 1 factory bundles	134	135
No. 2 bundles	63	64
No. 1 busheling	129	130
Machine shop turnings	31	32
Mixed borings and turnings	36	37
Shoveling turnings	38	39
Cast iron borings	38	39
Cut structural and plates, 2 feet and under	144	145
Low phosphate punching plate	144	145
Drop forge flashings	87	88
Foundry steel, 2 ft and under	112	113
No. 1 RR heavy melting	135	136
Rails, 2 ft and under	149	150
Rails, 18 in and under	151	152
Steel axle turnings	69	70
Railroad cast	104	105
No. 1 machinery cast	139	140
Cupola cast	109	110
Stove plate	109	110
Malleable	114	115
Stainless:		
18-8 bundles	390	400
18-8 turnings	350	360
430 bundles	140	150
Buffalo:		
No. 1 heavy melting	94	95
No. 2 heavy melting	77	78
No. 1 busheling	99	100
No. 1 dealer bundles	99	100
No. 2 dealer bundles	55	56
Machine shop turnings	17	18
Mixed boring and turnings	23	24
Shoveling turnings	26	27
Cast iron borings	23	24
Low phosphate plate	112	113
Structural and plate, 2 ft and under	114	115
Rails, 2 ft and under	118	119
Scrap rails, random length	107	108
No. 1 machinery cast	106	107
No. 1 cupola cast	97	98
St. Louis:		
No. 1 heavy melting	116	117
No. 2 heavy melting	84	85
Foundry steel, 2 ft	84	85
No. 1 dealer bundles	116	117
No. 2 bundles	61	62

FERROUS SCRAP PRICES—Continued

[Effective Mar. 4, 1974. Prices obtained in trade based on representative tonnages per gross ton delivered to consumer unless otherwise stated]

	From—	To—
St. Louis—Continued		
Machine shop turnings	$31	$32
Shoveling turnings	34	35
Cast iron borings	32	33
No. 1 RR. heavy melting	116	117
Rails, random length	99	100
Rails, 18 in, and under	124	125
RR-specialties	122	123
Cupola cast	84	85
Heavy breakable cast	37	38
Stove plate	79	80
Cast iron car wheels	54	55
Rerolling rails	102	103
Unstripped motor blocks	41	42
Birmingham:		
No. 1 heavy melting	102	103
No. 2 heavy melting	81	82
No. 1 dealer bundles	95	96
No. 2 bundles	56	57
No. 1 busheling	99	100
Machine shop turnings	25	26
Shoveling turnings	32	33
Cast iron borings	30	31
Electric furnace bundles	103	104
Electric furnace, 3 ft. and under	84	85
Bar crops and plate	117	118
Structural and plate, 2 ft	117	118
No. 1 RR. heavy melting	109	110
Scrap raus. randon length	102	103
Rails, 18 in and under	122	123
Angles and splice bars	94	95
No. 1 cupola cast	94	95
Stove plate	94	95
Cast iron car wheels	42	43
Unstripped motor blocks	57	58
Cincinnati brokers buying prices per gross ton on cars:		
No. 1 heavy melting	103	104
No. 2 heavy melting	96	97
No. 1 dealer bundles	120	121
No. 2 bundles	63	64
Machine shop turnings	25	26
Shoveling turnings	27	28
Cast iron borings	21	22
Low phos—— 18 in and under	128	129
Rails, random length	120	121
Rails, 2 ft and under	118	119
No. 1 cupola cast	97	98
Heavy breakable cast	80	81
Drop broken cast	115	116
New York brokers buying prices per gross ton on cars:		
No. 1 heavy melting	85	86
No. 2 heavy melting	76	77
No. 2 dealer bundles	51	52
Mixed borings and turnings	7	8
Machine shop turnings	9	10
Shoveling rurnings	16	17
Cleaning cast/chemical borings	31	32
No. 1 machinery cast	89	90
Mixed yard cast	75	76
Heavy breakable cast	48	49
Stainless:		
18–8 prepared solids	400	405
18–8 turnings	300	305
430 prepared solids	65	70
430 turnings	20	35
Boston brokers buying prices per gross ton on cars:		
No. 1 heavy melting	$90	$91
No. 2 heavy melting	75	76
No. 1 dealer bundles	103	104
No. 2 bundles	55	56
No. 1 busheling	103	104
Machine shop turnings	10	11
Shoveling turnings	25	26
Clean cast chemical borings	11	12
No. 1 machinery cast	102	103
Mixed cupola cast	82	83
Heavy breakable cast	46	47
San Francisco:		
No. 1 heavy melting		$80
No. 2 heavy melting		77
No. 1 dealer bundles		73
No. 2 dealer bundles		60
Machine shop turnings		10
Cast iron borings		10
No. 1 cupola cast		85
Los Angeles:		
No. 1 heavy melting		80
No. 2 heavy melting		76
No. 1 dealer bundles		74
No. 2 dealer bundles		63
Machine shop turnings		12
Shoveling turnings		16
Cast iron borings		12
Electric furnace, 1 ft and under (foundry)		93
No. 1 cupola cast		85
Seattle:		
No. 1 heavy melted		90
No. 2 heavy melting		87
No. 2 bundles		77
No. 1 cupola cast		90
Mixed yard cast		80
Hamilton, Ontario (brokers buying prices per net ton on cars):		
No. 1 heavy melting		68
No. 2 heavy melting cut 2 ft and under		63
No. 1 dealer bundles		66
No. 2 bundles		50
Mixed steel scrap		47
Bushings new factory prepared		68
Bushings new factory unprepared		61
Machine shop turnings		34
Short steel turnings		37
Mixed borings and turnings		34
Cast scrap		68
Houston (brokers buying prices per gross ton on cars):		
No. 1 heavy melting	$103.00	$104.00
No. 2 heavy melting	95.50	96.50
No. 2 bundles	73.00	74.00
Machine shop turnings	8.00	9.00
Crushed turnings	28.00	29.00
Cut structural plate 2 ft and under	117.00	118.00
Unstripped motor blocks	55.00	56.00
Cupola cast	99.00	100.00
Heavy breakable cast	50.00	51.00

STATEMENT OF HON. JACK F. KEMP, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK, ON H. RES. 774, A RESOLUTION DECLARING THE SENSE OF THE HOUSE WITH RESPECT TO A PROHIBITION OF EXTENSIONS OF CREDIT BY THE EXPORT-IMPORT BANK OF THE UNITED STATES

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE: The Subcommittee is to be commended for beginning the formal consideration of this important resolution, H. Res. 774. This measure would declare the sense of the House with respect to a prohibition of extensions of credit by the Export-Import Bank of the United States—the Eximbank—until the substantive issues have been resolved by the Congress on such future trade policies.

As a cosponsor of this resolution, I am gratified that it may soon be ordered reported to the Floor of the House, where I am confident it will receive support from a strong majority of Members.

The need for the passage of this resolution grows daily.

As we are all aware, the proposed Trade Reform Act, the bill designed to deal substantively with the issue of U.S. extensions of credits to nonmarket countries, remains stalled in the Senate. In the interim, a significant conflict has arisen between the opinions of the Comptroller General of the United States, an officer of the Congress, and the Attorney General of the United States, an officer of the Executive, as to the application and interpretation of present law in this regard.

In the opinion of the Comptroller General—and my reading of present law confirms it fully—the President of the United States must make a determination that each—I repeat, each—individual transaction involving the extension of Exim credits to Communist countries is in the national interest—of the United States, not the recipient country—and then report that finding to the Congress. As recently as March 8, the Comptroller General confirmed this position.

But, it is the position of the Administration and Exim that the President has only to make a general determination that the extension of such credits are in our national interest, and that such a position was expressed by the President on October 18, 1972.

Because of the ruling of the Comptroller General, on March 11, three days after that most recent ruling, Eximbank suspended consideration of credits to the Soviet Union and three other Communist countries pending clarification of the point.

Several days later, the Attorney General, William Saxbe, upheld the alleged legality of the general determination by the President in 1972, stating—the letter of the law notwithstanding—that the law did not require a separate Presidential determination and report to the Congress as to each transaction. If it were not for the principle that the law is subject to interpretation until resolved by a court of law, one would be prone to accuse the Attorney General of thumbing his nose, almost contemptuously, at the Congress. And the same can be said for the officers of Exim bank who, that same day, extended an additional $74.9 million in credits to the Soviet Union and three USSR-dominated Eastern European satellites.

It is obvious to me that the Administration and Eximbank is trying to push through as many credit transactions as possible before the enactment of any new legislation restricting their extension. In the face of the House having already passed such restrictions, in the face of nearly three-fourths of the Senators supporting the holding back of extensions until internal reforms are instituted within the Soviet Union, and in face of the clear ruling of the Comptroller General, this Administration proceeds with extensions of credit.

As we testified here today, the Soviet Union is continuing to receive U.S. taxpayer backed credits to develop its own economy. This is happening:

> Despite its denial of even the most basic of human rights to its citizens, including the right to emigrate—the right to leave and return to one's own country without fear of reprisals;
>
> Despite its continuing and expanding program of developing even more massive and sophisticated offensive weapon systems;
>
> Despite its blatant arming of the Arab powers prior to and during the recent Yom Kippur war in the Middle East;
>
> Despite its strong support of the Arab oil embargo of Western nations, following that war; and,
>
> Despite its never-renounced policies of achieving a world dominated by it.

Surely, the wisdom of continuing to extend such credits must be called into question.

The resolution being considered by this Subcommittee today simply says, "Until this issue—the issue of what terms and conditions ought to ride with the extension of credit by the United States—has been resolved by the enactment of the Trade Reform Act, it is the sense of the House that all Eximbank credits of this type should stop." We are not attempting here, to deal with the substantive issues. The Trade Reform Act and a number of similar measures—most of which I have joined in cosponsoring—will do that—deal with the substantive issues.

Mr. Chairman, I respectfully urge the Members of this Subcommittee and its parent Committee on Banking and Currency to report this measure to the Floor at the earliest possible moment. It would certainly be in the best interest of our Nation.

COPPER & BRASS FABRICATORS COUNCIL, INC.,
Washingon, D.C., May 3, 1974.

Hon. THOMAS L. ASHLEY,
Chairman, Subcommittee on International Trade of the Committee on Banking and Currency, U.S. House of Representatives, Washington, D.C.

DEAR CONGRESSMAN ASHLEY: On behalf of the Copper & Brass Fabricators Council, Inc., I am pleased to forward this statement of the Council's views on the short supply provisions in the bills to amend the Export Administration Act of 1969 which are now being considered by the Subcommittee on International Trade of the Committee on Banking and Currency.

The Council is a membership corporation formed for the purpose of promoting the interests of domestic fabricators of copper and brass products, particularly as they relate to the exports of such products from, and the imports of such products into. the United States. The Council also engages in other activities relating to federal regulatory matters affecting fabricators of copper and brass mill products. Our membership consists of 27 domestic brass mill companies that account for about 85 percent of the total production of the industry in this country. A list of the Council's members is attached as an appendix.

Brass mill products, principally copper and copper-based alloy sheet, strip, tube and rod, are essential to our economy and are used extensively in a wide variety of applications. They are important in building construction, especially residential housing, and in automotive, appliance, electronic and heat exchanger applications.

We urge that Congress require an action program to be instituted immediately with respect to short supply export controls. We believe that the amendments to the Export Administration Act of 1969 which we are recommending below are an action program that can help alleviate present and future shortages of those materials essential to American industry. These amendments would ease somewhat the criteria that must be met before short supply export controls may be imposed and would provide an effective procedural mechanism for administration of such controls.

Before dealing with the substance of these recommendations, it is appropriate to review briefly the reasons for our interest in the issue of an effective program of short supply export controls.

Copper and brass fabricators, like many domestic industries, cannot obtain their full requirements of materials from domestic sources. They must, therefore, use significant quantities of imported materials, usually at prices considerably higher than prices of domestic materials. For this reason copper and brass fabricators have a vital interest in maintaining adequate domestic supplies of such materials and in federal legislation that regulates their export.

The brass mill industry has already experienced first-hand the adverse impact of an ineffective short supply export control program with respect to copper scrap and copper-alloy scrap (hereinafter "scrap"). Scrap is a raw material vital to the brass mill industry. The treatment of scrap by the Department of Commerce under the Export Administration Act is a striking example of the reasons why the Act must be amended.

Scrap represents about 46 percent of the metal intake of our members' mills. This is a 10 percent increase over such scrap intake in 1963. The increasing usage of scrap stems primarily from changing metal costs and the need for brass mill products to remain competitive in price with other materials. During 1973 the brass mill industry utilized about 44 percent of the total of 1.8 million tons of scrap consumed in the United States.

The United States exports significant quantities of scrap and the amount of such exports increased dramatically in 1973. The total exports of scrap equaled about 170,000 tons in 1972 and 300,000 tons in 1973. The scrap leaves this country as a relatively low cost material; some of it returns as high-priced refined copper. The United States annually imports about 200,000 tons of the high-priced refined copper. Our industry consumed about one-third of the total of 2 million tons of refined copper utilized in the United States in 1973.

Sharp increases in the price for scrap have recently occurred, resulting, in part, from increased overseas demand. And refined copper has also become more expensive because of increased demand and because of the high cost of scrap. From January 1973 through March 1974, the average monthly price of scrap increased from 41.9 cents to 94.7 cents per pound.[1] During the same period, the monthly average world price of refined copper rose from 50.7 to 124.4 cents per pound and the average monthly price for domestically refined copper (wirebar) went from 52.4 to 68.6 cents per pound.[2]

In June, 1973, because of the freeze on all prices, including the price of scrap, scrap exports increased *29 percent* over the prior month. In July such exports rose an additional *127 percent* over June figures. Despite the obvious need to stem the outflow of scrap into the export market, the Commerce Department refused to take any action pursuant to the Export Administration Act. Throughout June and July, our industry urged the Department to impose export controls on scrap. These efforts were to no avail. The Department's officials insisted that *all* of the relevant criteria under the Export Administration Act had to be met and that they had to be met *before* controls could be imposed. Moreover, they refused even to institute a monitoring system for scrap to determine, before confirming export statistics would become available from the Department's Bureau of the Census, whether or not the relevant criteria had already been met or probably would be met. In the absence of a monitoring system, the statistical basis for determining whether the statutory criteria had been met or would be met had to await the routine and delayed issuance of Census Bureau monthly reports and their subsequent evaluation within the Department. By that time the damage in terms of increased scrap prices and domestic shortages had already been done.

The later decontrol of scrap from Phase IV price controls did, of course, tend to alleviate the outflow of scrap as dealers began to sell to the domestic market at prices approaching the world price. But the action of the Commerce Department was a vivid illustration of how the current export control program has been ineffective to protect the needs of American industry.

ACTION PROGRAM ON EXPORT CONTROLS

In view of the foregoing, we recommend that Congress require the immediate initiation of a comprehensive action program for short supply export controls. This program would include both substantive and procedural reforms. The main purpose of the substantive part of this program would be to revise the criteria for applying such controls by making clear that they are intended to protect the domestic economy and should apply whenever one of several different circumstances has arisen. The procedural aspects of the program would assure that short supply controls are imposed before the domestic economy has suffered actual injury. The action program is described below.

1. REVISION OF SECTION 3(2)(A) OF THE EXPORT ADMINISTRATION ACT

Under the Export Administration Act, export controls may be imposed "to the extent necessary to *protect* the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of foreign demand. . ." [emphasis added]. However, successive Secretaries of Commerce have invariably interpreted this language to require that each of three statutory conditions exist *before* export controls may be imposed: (1) an excessive drain of a scarce material, *and* (2) serious inflationary impact, *and* (3) such impact caused by abnormal foreign demand.

In its report on H.R. 8547, the Senate Committee on Banking, Housing and Urban Affairs concluded that "the Executive Branch in the past has taken too

[1] American Metal Market, Refiners' buying price for wholesale lots of No. 2 copper scrap.
[2] Metals Week, London Metal Exchange, spot wirebars.

rigid a view of . . . [its] authority" to impose short supply controls. The Committee said that "[it] is not necessary that there presently be in existence a drain of scarce materials and serious domestic inflation." Emphasizing that the statute permits short supply controls "to protect" the domestic economy, the Committee said "it is not necessary that the economy actually be damaged before action can be taken." S. Rep. No. 582, 93rd Cong., 1st Sess. 3 (1973).

The present Secretary of Commerce has said that he now agrees with this Senate Committee interpretation. Our industry certainly supports this understanding of the law.

But so long as the 1969 Act remains unchanged, others responsible for export control policy and possibly a future Secretary of Commerce might not share this interpretation. In addition, even this broader interpretation of the Act does not remove the need to satisfy *all three* of the previously mentioned criteria. And nowhere does the Act include authority—which we regard as essential—for imposing short supply controls when there has been a serious inflation in domestic prices regardless of whether it is caused by foreign demand.

In view of the foregoing, we recommend that the Congress make the following amendments to Section 3(2)(A) of the Act. First, it should clarify the Act's meaning by changing the "and" in Section 3(2)(A) to an "or". This will make clear that only one of the criteria in that provision needs to be fulfilled. We also believe that, as the Administration initially requested, an additional criterion should be added to that Section to allow the imposition of short supply controls "to curtail serious inflation in domestic prices." This would provide a basis for controls that does not presently exist and that seems essential to prevent inflation resulting from an insufficient supply of goods in domestic markets. In addition, we recommend that the word "abnormal" currently qualifying the term "foreign demand" in Section 3(2)(A) be deleted. Deletion of the word "abnormal" would make the criterion relating to foreign demand less stringent.

Finally, we recommend that Section 3(2)(A) be amended to incorporate the interpretation that the Senate Banking, Housing and Urban Affairs Committee and the Secretary of Commerce have adopted. Such an amendment would remove any legal doubt about their interpretation or any possible tightening of the applicable standard by further interpretation. This objective could be accomplished by a simple addition to Section 3(2)(A) that would permit controls to be imposed if injury to the domestic economy were "threatened."

If the foregoing recommendations were adopted, Section 3(2)(A) would read, in relevant part, as follows:

> "It is the policy of the United States to use export controls (A) to the extent necessary to protect the domestic economy from *actual or threatened injury caused* by the excessive drain of scarce materials [and] *or* [to reduce] the serious inflationary impact of [abnormal] foreign demand *or serious inflation in domestic prices* . . ." [3]

2. PROCEDURAL REFORMS IN ADMINISTERING SHORT SUPPLY CONTROL AUTHORITY

Broad substantive authority to impose short supply controls is not enough. Our industry's recent experience with domestic shortages of scrap indicates that a number of procedural reforms in the administration of that authority are essential. We are therefore recommending what we believe to be an effective mechanism for the administration of these controls.

The main thrust of our proposal is to cause the determination in advance of the precise circumstances in which the criteria under the Act for imposing short supply controls would be met. In addition, the program would provide the government with the necessary industry advice on when and how to implement such controls.

While procedural reforms such as those recommended below could be carried out under existing legislative authority, the Administration has failed, despite the need, to institute them to date. Hence, we believe that the procedural aspects of our action program should be mandated by Congress under the Export Administration Act of 1969.

The essential features of the procedural reform program that we recommend would include at least the following measures:

A. *Identify Essential Materials for the Domestic Economy.* We recommend that the Congress require the Secretary of Commerce immediately to determine

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[3] Additions italic; deletions bracketed.

in cooperation with appropriate government agencies which materials and manufactured products and in what quantities are essential to United States security and the strength of the domestic economy. The results of this study of essential materials would be published within 90 days after enactment of amendments to the Act. The study would include a determination of the level and pattern of exports of these essential materials during the past five years. It would also project the anticipated exports of such materials during the next few years.

B. *Monitor Continuously Exports of Essential Materials.* We recommend that immediately after the publication of the determination in paragraph (A) the Secretary of Commerce would be required to obtain comprehensive reports of exports, both actual and anticipated, of essential materials from the United States. These reports would include data on contracts for future exports of such materials and the relationship, if any, between the exporters and foreign importers.

C. *Determine Level of Essential Material Exports Requiring Short Supply Controls and Method of Implementation.* We recommend that within 90 days after publication of the determination in paragraph (A), the Secretary of Commerce be required to announce in regulations the level of anticipated and actual exports at which short supply controls would be automatically imposed for all essential materials. Such levels would be thereafter announced not later than 10 days prior to each calendar year (or, in appropriate cases, crop year). The Secretary's announcement would specify the method for implementing such controls for each essential material, including the formula for determining the level of exports that would be permitted for such materials.

D. *Create Government-Industry Technical Advisory Committees.* We recommend the creation of government-industry advisory committees for categories of essential commodities to assist the Secretary of Commerce in making the determination provided for in paragraph (A) and in preparing the regulations to be published pursuant to paragraph (C). The Secretary would be required to appoint these committees within 30 days after enactment of the statutory amendments authorizing their establishment. The industry members of these committees would furnish the expertise on export trends and marketing procedures that it is generally conceded the Administration lacked with respect to soybean controls in 1973 and still lacks for most other materials.

E. *Right of Industry Petition for Essential Material Classification.* We recommend a procedure to permit petitions seeking classification of particular materials as essential. Any industry that would be injured by a shortage of any material not classified as essential could petition the Secretary of Commerce for review of that material's status. Such a petition would be accompanied by relevant documentation supporting the proposed classification. The Secretary would be required to review the petition and supporting submissions and conduct a full hearing concerning the matter pursuant to the Administrative Procedure Act. These proceedings would be fully subject to the Administrative Procedure Act and the Secretary's decision would be subject to judicial review in accordance with normal procedures for appeal of administrative decisions. This would, of course, require an appropriate amendment to Section 8 of the Export Administration Act which presently exempts the Act from the requirements of the Administrative Procedure Act.

F. *Require Special Report to Congress on Essential Materials Activities.* We recommend that within six months after the enactment of amendments creating this action program, the Secretary of Commerce be required to submit a special report to the President and the Congress concerning the program's implementation. Thereafter, a report on the Secretary's activities with respect to essential materials would appear in the Quarterly Report required by the 1969 Act. The initial and subsequent reports would set forth in detail the steps taken to determine essential materials, to monitor their export, and to specify the level of exports requiring short supply controls and the methods of implementation. The specific reports would also review the results of industry petitions for essential materials classification. In addition, the reports would review the work of the government-industry technical advisory committees.

We recognize that a number of the procedural points in this recommended action program will need further elaboration. But the essential features of the program are, we believe, clear from the foregoing. The basic premise of our approach is that explicit procedural requirements are necessary if short supply controls are to be formulated and applied effectively. We urge that the Congress

require the Secretary of Commerce to establish objective criteria for determining when controls are necessary pursuant to standards and procedures in the 1969 Act. And we also urge that industry play an active role in determining the basis for imposing such controls and the method for implementing them.

We recognize that some of our proposals, such as data-gathering on essential materials, are the subject of alternative approaches suggested by members of the House and Senate. But we believe that the Export Administration Act of 1969 affords a readily available means for achieving most of the action program without undue delay. The Commerce Department, moreover, has some experience with short supply controls and has the necessary relationship with the business community to gain cooperation for the program. In addition, there is precedent for requiring prompt action by the Secretary of Commerce pursuant to the 1969 Act and a special report to Congress concerning that action.

The time for action on short supply controls is now. We urge that this Committee act on these legislative recommendations so that the necessary work will begin.

Respectfully submitted,

ROBERT J. WARDELL,
Managing Director.

APPENDIX

MEMBERSHIP LIST

Anaconda American Brass Co., 414 Meadow Street, Waterbury, Conn.; Bridgeport Brass Co., Inc., 30 Grand Street, Bridgeport, Conn.; Bridgeport Rolling Mills Co., Bridgeport, Conn.; Cerro Copper Products, Division of Cerro Corporation, East St. Louis, Ill.; Cerro Metal Products, Division of Cerro Corporation, Bellefonte, Penna.; Chase Brass & Copper Co., Inc., 20600 Chagrin Boulevard, Cleveland, Ohio; Chicago Extruded Metals Co., 1812 South 54th Street, Cicero, Ill.; Cities Service Co., New Haven Copper Operations, 70 Main Street, Seymour, Conn.; Extruded Metals, 21800 Greenfield Road, Detroit, Michigan; Howell Metal Company, New Market, Virginia; Hussey Metals Division, Copper Range Company, Leetsdale, Penna.; Linderme Tube Company, 1500 E. 219th Street, Cleveland, Ohio; The Miller Company, 99 Center Street, Meriden, Conn.

The National Copper & Smelting Co., 6075 Cochran Road, Solon, Ohio; New England Brass Company, Park Street, Taunton, Mass.; Olin Corp.-Brass Group, East Alton, Ill.; Penn Brass & Copper Comany, P.O. Box 8188, Erie, Penna.; Penn Capillary Tube Co., New Ross, Indiana; Phelps Dodge Brass Company, P.O. Box 2, Dayton, New Jersey; Reading Industries, Inc., 530 Main Street, Fort Lee, New Jersey; Revere Copper & Brass, Inc., 605 Third Avenue, New York, N.Y.; Robintech, Inc., P.O. Box 2342, Fort Worth, Texas; Scott Brass, Inc., 50 Taylor Drive, East Province, R.I.; Scovill Manufacturing Company, 99 Mill Street, Waterbury, Conn.; Triangle Pipe & Tube Co., Inc.; New Brunswick, New Jersey; Volco Brass & Copper Co., Kenilworth, New Jersey; Waterbury Rolling Mills Co., East Aurora Street, Waterbury, Conn.

STATEMENT OF ROBERT B. MANGUM, PRESIDENT, CAST IRON SOIL PIPE INSTITUTE

Mr. Chairman and Congressmen. My name is Robert B. Mangum. I am president of the Cast Iron Soil Pipe Institute, a trade association having headquarters at 2029—K Street, N.Y., Washington, D.C., and representing manufacturers of over 95 percent of the cast iron soil pipe and fittings produced in the United States.

I am also president of The Central Foundry Company, one of the leading manufacturing companies within the cast iron soil pipe and fittings industry. Our principal foundry is in Alabama and we have additional plants in Pennsylvania and New York.

Our industry is almost totally dependent upon a ready availability of sufficient quantities of scrap iron and scrap steel. In this regard, we differ somewhat from other constituent industries within the iron and steel group. I understand that in steel making ferrous scrap makes up close to one-half of the total metallic input. But for our industry, the figure would be close to one hundred percent. All of us make our cast iron products from used automobile blocks and bodies and other items of iron and steel scrap.

For somewhat over a year now we have together with other companies and associations within the iron and steel industry, complained loudly to the Secretary of Commerce and to the Congress about the tidal wave of scrap exports leaving our shores for foreign lands.

Senator John Sparkman of my home state of Alabama outlined these problems in an address on the floor of the Senate on March 12, 1973. Referring to the enactment by Congress of the Export Administration Act of 1969, and the extension of that Act through June of this year, Senator Sparkman said:

"The sense of the Congress in the original enactment of this legislation and the subsequent renewals is perfectly clear. There are times and circumstances when the need for judicious application of exports curbs on a particular commodity is overwhelming. At such times, the national interest is not well served by redundant studies and analyses, or by polite conferences and expressions of sympathy spoken by administration officials to persons and industries in dire need."

The statement can be found at 119 *Congressional Record*, Daily Ed. March 12, 1973, at S 4392.

The scrap export problem, at least as experienced by cast iron soil pipe manufacturers, continues virtually unabated. The increasing prices for the ferrous scrap supply have resulted in higher market prices for our own products, thus adding to the general condition of inflation.

We also suffer the added indignity of seeing this scrap metal come back into our domestic markets as "dumped" or "Subsidized" products at prices at which we cannot compete. Here too, our industry has suffered from a case of inaction or too little action on the part of the Executive Branch. The Secretary of the Treasury will not invoke authority given him by Congress to help us on the dumping situation. The Secretary of Commerce will not invoke authority given him by Congress to help us effectively with export controls for ferrous scrap.

The ferrous scrap market continues to be marked by an unchecked inflation. There will be a certain degree of variance as the impact affects different producers. Prices vary from one locality to another as do the grades or descriptions of scrap metal which are purchased. For this reason, an accurate composite of the price increase is difficult to come by. There is a general view within the industry that prices for scrap iron and scrap steel have more than doubled since mid-1972.

The United States, alone among industrial countries, permts large exports of ferrous scrap in the face of domestic shortages. Japan and the countries of Western Europe, when confronted with high demand within their respective borders, forbid exports altogether or allow only token exports. In September 1972, Great Britain imposed an embargo virtually drying up the stream of ferrous scrap exports from that country. This in turn operated to transfer more foreign demand to the American market.

It is no exaggeration to say that our cast iron soil pipe and fittings industry has been badly hurt by the unregulated flow of our nation's scrap reserves to foreign shores. Two major cast iron soil pipe foundries have closed within the past 18 months. Scrap iron and scrap steel is the very food and drink of the cast iron soil pipe foundries. Without a steady supply of these materials, the furnaces grow cold and people are thrown out of work. Without a continuous supply of stable and predictable prices, the same result flows, unless some means can be found of passing high production costs on to the buyers. This, I believe you will agree, is not a happy result for the American economy considered in its totality.

The situation faced by our industry is precisely the type of situation which led Congress to enact the Export Administration Act of 1969, and to continue its existence to at least June 30 of this year. The belated and ineffective action of the Secretary of Commerce in setting an export maximum of 700,000 tons per month has not satisfied the iron and steel industry as a whole. More specifically, it appears to have done nothing for our own particular industry. The case is simply this, that experience has amply demonstrated that we can expect little or no relief from the present structure of export controls, whereby authority is vested in the Secretary of Commerce to impose certain licensing or quota requirements.

We advocate an administrative procedure through which parties substantially affected by absence of export controls of any commodity could initiate an administrative proceeding leading to the imposition of such controls. Where market conditions undergo dramatic changes in a short period of time, time is of the

essence. This is the case with respect to scrap iron and scrap steel. The process may be visualized as follows. When excessive exports of ferrous scrap threaten to result in an inflationary impact or short supply, the iron and steel industry or a substantial segment thereof should have the right under law to file an administrative complaint with the Secretary of Commerce petitioning that export controls be imposed. This should be followed by an accelerated proceeding under a modified Administrative Procedure Act. There should be a requirement for a hearing before an administrative law judge who would render his decision within a stated period of time, for example, thirty days. This decision should be appealable to the Secretary of Commerce or a new board of commission to be established by the Congress; and the final administrative decision should be judicially reviewable, again on an expedited basis.

In this connection there come to mind other examples in which the Executive Branch is required by law to move with uncommon rapidity. The emergency labor disputes provision of the Labor Management Relations Act is such an example. The President appoints a special board of inquiry which then must render its report within a stated time limit. This is intertwined with court action. Certainly our federal government despite all its cumbersome complexity demonstrates on occasion that it can move with surprising speed when certain decisions of far-reaching import must be made.

In conclusion, I would only state that the ferrous scrap situation is much too large and much too important a public issue to be left to the political discretion of officials within the Executive Branch. We are talking here about a basic industry whose economic fortunes have far-reaching effects through the entire economy. We are talking about the employment of hundreds of thousands of people. Senator Sparkman last year, in the address I have cited, pointed to another related effect, the effect upon a constant and reliable flow of building materials and eventually upon the nation's supply of adequate housing. It is our belief that against this background the question of export controls for ferrous scrap becomes that kind of question which ought to be decided by means of an administrative process upon an open record.

Statement of M. J. Mighdoll, Executive Vice President, National Association of Recycling Industries, Inc. (NARI)

Mr. Chairman: My name is M. J. Mighdoll and I am Executive Vice President of the National Association of Recycling Industries, Inc. (NARI), a trade association which represents the metal, paper, textile, rubber and plastic recycling industries of the United States. The Association's 700 members include those firms which recover, process, convert, refine and export a wide range of recycled solid waste commodities, principally metal scrap, paper waste and textiles. Its membership also includes many of the nation's leading manufacturing companies which purchase recycled materials for utilization in products for both domestic consumption and export.

It is the position of this Association that the Export Administration Act provides a completely satisfactory basis for the imposition and administration of export controls and has proved itself to be a sound legislative instrument in terms of providing the Commerce Department with the proper means of invoking export controls when necessary. In it present form the Act contains sufficient and explicit legislative authority to control export activities as may be necessary and therefore does not require amending as proposed by some domestic companies.

The Export Administration Act wisely does not place any unnecessary, unfair, or arbitrary restrictions on the export movement of recycled materials. It clearly provides authority for controlling exports. The Act states at Section 3(2)(A):

> "It is the policy of the United States to use export controls (A) to the extent necessary to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of *abnormal foreign demand.*" [Emphasis supplied.]

It has been suggested that the word "abnormal" be struck from Section 3(2)(A) of the Act because it is "an unnecessary impediment to the consideration of export control requests"[1] We cannot agree. Both the requirements of

[1] See Statement of Richard B. Scudder before the Subcommittee on International Trade of the House Committee on Banking and Currency on the Export Administration Act, April 29, 1974.

"excessive drain" and "abnormal foreign demand" are necessary to insure that a genuine and serious situation exists before allowing the Department of Commerce to implement restrictive trade policies.

Anything less would permit domestic users to demand export controls every time the supply of needed commodities became scarce and competition from foreign markets uncomfortable. The purpose of the Act is not to protect domestic consumers from temporary short-term tight supply conditions or act as a hedge against the uncertainties of the market place but is to protect our scarce resources from depletion by foreign and possibly hostile powers.

Former Secretary of Commerce Peter Petterson and Price Commission Chairman C. Jackson Grayson adhered to this argument recently at the opening of the U.S. Chamber of Commerce annual meeting by claiming that "the United States could never assure itself of continuing supplies of needed materials if it slapped on export controls everytime domestic supplies became tight."

Today, with the appropriate emphasis of the Federal government on export expansion rather than on export contraction, it should certainly not be the intention of Congress to inhibit or restrict movement of materials to foreign countries which are often surplus to domestic needs and the export of which would significantly aid the balance of payments situation. Legislation which tends to create an atmosphere of export limitation rather than expansion is contrary to the stated and oft-repeated policy of both the Administration and the Congress.

In conclusion, NARI urges that in light of current interest in solving the solid waste problem through greater use of recycled materials in international markets, in terms of the desirability of encouraging an improved balance of payments and monetary situation through export expansion, and in view of the fact that the Export Administration Act already contains sufficient safeguards and authority to control the movement of materials whenever necessary, we respectfully urge the Committee to take no affirmative action on proposals to modify the Act in ways which would make it easier to create barriers to free international trade.

Statement of the Associated General Contractors of America on the Export Administration Act and Export Controls

The Associated General Contractors of America is a national trade association representing more than 8,200 of the nation's leading general construction firms engaged in all forms of construction in the 50 states, Puerto Rico and the District of Columbia. Our membership performs or is responsible for approximately $60 billion worth of construction annually. We also represent over 17,500 subcontractors, suppliers and service organizations as associate members who are engaged in supplying and subcontracting for our construction firms and are members of the 119 AGC chapters and branches. The construction industry which, according to the Department of Commerce accounts for about one-eighth of our gross national product, employs approximately 5 million workers; about 3.5 million of which are employed by or through members of our Association.

Our Association would like to present two major points relevant to the Export Administration Act and export controls: First, that the Export Administration Act of 1969, as amended, should be modified to incorporate a clear and broadened statutory directive to the Executive Branch to assure that if a domestic material shortage develops, exports of that material will be curtailed to the extent necessary to eliminate the domestic shortage; second, that consideration be given to the immediate implementation of a temporary embargo on steel scrap exports in order to provide U.S. steel producers with sufficient metal to meet the nation's needs.

We realize that export control authority requires flexibility for effective utilization to anticipate and respond to rapidly changing circumstances; and that export controls represent a balance of delicate and complex factors which vary with daily market conditions; and further that export controls are inextricably related to balance of payment and trade negotiating problems—all of which do not readily lend themselves to detailed statutory mandates. However, we believe that action must be taken when present export authority is not implemented sufficiently to prevent domestic industries from being crippled by skyrocketing prices or inadequate supplies of domestic materials as a result of foreign purchases.

The Export Administration Act of 1969, as amended, provides the Secretary of Commerce with the authority to use export controls ". . . to the extent necessary to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of abnormal foreign demand." In short, Congress has provided for guarding against the very situation which now exists in ferrous scrap—abnormal foreign demand resulting in an inflationary impact. Unfortunately, the Secretary of Commerce has not adequately used his authority under the Act.

The subcommittee is well versed in the chronology of the Secretary of Commerce's reaction to the ferrous scrap situation, and this statement will not belabor the point or attempt to overlap that knowledge.

We believe that the ferrous scrap problem has reached such proportions that only a temporary embargo can rectify the situation. It appears that basic material shortages are on the upswing in our nation and will be a significant problem through the remainder of this decade. Since March of 1972 our Association's Fuel and Material Supply Committee has addressed itself to and monitored material shortages that affect the construction industry.

Our industry is feeling the impact of many shortages, but principally steel products, fuel, cement, and asphalt; and we are now beginning to feel the rumblings of a new deficiency of lumber supplies. Many of these shortages, as well as others which have not yet surfaced, could be affected or contributed to by the outflow of materials to satisfy foreign demand. Lest any other material reach the shortage proportions of ferrous scrap as a result of insufficient exercise export control authority, we strongly recommend that Congress provide the Executive with a structured framework for implementation of export limitations.

In that regard, our Association suggests the following modifications to the Export Administration Act of 1969. as amended:

(1) That the grant of export authority be broadened to allow the use of export controls to the extent necessary to protect the domestic economy from the excessive drain of scarce material or to reduce the serious inflationary impact of foreign demand.

(2) That the Secretary of Commerce be directed to systematically and continuously monitor commodities of historical volativity, i.e. those commodities which previously have had licensing and export limitations imposed upon them; and establish a system to allow users of commodities to petition the Secretary for a determination that a certain commodity should be placed under a continuous monitoring situation.

(3) That the Secretary of Commerce be directed to establish advisory committees, consisting of representatives of industry and government, for each historically volatile commodity as well as for those commodities determined, as a result of user petition, to warrant continuous monitoring.

As noted above, our Association has reached the conclusion that only an immediate temporary embargo can rectify the current ferrous scrap situation. Our industry's concern with the ferrous scrap shortage is the result of the severe shortage of one finished steel product—reinforcing steel. Approximately half of the raw material used in reinforcing steel is scrap. Reinforcing steel is a critical commodity, in that it is essential to nearly all construction except for single family homes. It is used extensively in highways, in hydro-electric and nuclear power plants, in sewage treatment plants and large pipelines as well as in most multi-story buildings. Virtually all commercial building construction stops at the foundation if reinforcing steel is not available.

In October, the Concrete Reinforcing Steel Institute warned that reinforcing steel domestic shipments in 1974 would be 600,000 tons less than 1973, and that for every ton less, $16,000 of construction would be adversely affected. This could mean that approximately $10 billion worth of construction projects could be adversely affected in 1974. A slowdown of this magnitude will affect approximately 500,000 construction workers in the United States, as well as curtail many vitally needed construction projects—notably those in the area of energy production facilities.

Unfortunately, this October forecast, and its ramifications to the construction industry, appears to still be viable despite the Secretary of Commerce's announced reduced export levels of ferrous scrap for the first and second quarters of 1974. In February of this year our Association conducted a geographically representative survey of our 119 chapters relative to the price and availability of reinforcing steel. While aimed specifically at reinforcing steel, we feel that the survey, due to the direct relationship between the input of ferrous scrap

and the output of finished reinforcing steel, is a useful barometer of the availability and inflationary impact of the ferrous scrap situation (copy of survey results attached).

Our survey revealed, in part, that:

In the western Pennsylvania, Maryland, West Virginia area the price of reinforcing steel jumped from $190 per ton in December of 1973 to $480 per ton in February of 1974, with the lead time needed to fill an order increasing over this same period of time from 2–3 months to 6 months.

In upstate New York, the price jumped from $240–260 per ton in December to a point in February that *no* firm price quote would be given by reinforcing steel suppliers, while lead time increased from 6 weeks in December to 11 months or more in February.

In Illinois, lead time increased from 4 weeks in December to indefinite status in February.

In Michigan, price jumped from $280 per ton in December to $360 per ton in February, with lead time increasing from 10 months to 12 months or more.

In Nebraska price jumped from $265 per ton to $314 per ton with lead time increasing from 10–12 weeks to 20–22 weeks.

In essence, despite the Secretary of Commerce's reduced export levels for the first and second quarter of 1974 (2.1 million tons per quarter), the domestic availability and inflationary impact of the ferrous scrap export situation (as reflected by the availability and price trends of reinforcing steel in late February, the second month of the first quarter) appear to be worsening.

As a result, our Association urges an immediate temporary embargo on the export of steel scrap to avert further catastrophic price spirals. This embargo should continue until such further permanent remedial action is taken to guarantee domestic security in the steel, and therefore, the construction industry.

REINFORCING STEEL SURVEY RESULTS, MAR. 4, 1974

Region	Rebar price (per ton)			Availability (lead time needed to fill order)		
	December 1973	January 1974	February 1974	December 1973	January 1974	February 1974
East:						
Western Pennsylvania, Maryland, West Virginia.	$190	$300	$480	2–3 mo	5 mo	6 mo.
Upstate New York	240–260	280–300	(1)	Delivered with escalator clause.		Delivered early 1975.
Rhode Island	285	328	308	6 weeks	6 weeks	6 weeks.
New Jersey	250	250	250			
Johnstown, Pa	310	380	420	When available	4–6 weeks	6–8 weeks.
Tioga, Butler and Allegheny Counties, Pa.	290	320	320	3 mo	6 weeks	2 mo.
South:						
North Carolina	295–300	300	310	6 weeks	6–8 weeks	6–8 weeks.
Orlando, Fla	360		400	3–5 mo		3–5 mo.
Mobile, Ala	362					
Charleston, S.C		376				No firm delivery
Hilton Head, S.C	250	252		6–8 weeks	6–8 weeks	
Richmond, Va	240–260	240–260	240–260	12 mo	12 mo	12 mo.
Paducah, Ky	365	500	530	6–8 weeks on large sizes; 6 mo on small sizes.		
Louisville, Ky	36C	360	360	9 + days	9 + days	9 + days.
Jacksonville, Fla	310	350	372	3 mo	4 mo	4 mo.
Alexandria, La	380	480	520	2–8 weeks	4–8 weeks	4–8 weeks.
Midwest:						
Kansas City, Mo	300	330	330	90–180 days		
Iowa	330	350	365	If from stock, 2 or 3 weeks; if ordered from mill, none available. Mills requesting orders be placed on a 6-mo basis.		
Marion, Ill	480–580	(2)	(2)	4 weeks	Indefinite	Indefinite.
Missouri Highway Commission.	480–640	620–640	560–900	Sporadic	3–4 mo	
Columbus, Ohio	300	320	330	4 weeks	4 weeks	4 weeks.
North Dakota-Minnesota	(3)	(3)	(3)	No. 4 and No. 5 bar is 90 days or more. Other sizes are 2 weeks plus fabrication time.		
Detroit, Mich	280	300	360	September 1974 or later.	1st ¼ of 1975	1975.
Lincoln, Nebr	265	289	314	10–12 weeks	16 weeks	20–22 weeks.
Wichita, Kans	344		353	30–60 days		30–60 days.

See footnotes at end of table.

REINFORCING STEEL SURVEY RESULTS, MAR. 4, 1974—Continued

Region	Rebar price (per ton)			Availability (lead time needed to fill order)		
	December 1973	January 1974	February 1974	December 1973	January 1974	February 1974
Southwest:						
Houston, Tex	$200–$300	$400–$450	$500	2 weeks	4 weeks	4 weeks.
San Antonio, Tex	340	400	440	1 week to 3 mo	1 week to 3 mo	1 week to 3 mo.
Dallas, Tex	400	406	440	45 days	45 days	45 days.
Corpus Christi, Tex	175	290	440	4–5 weeks	3–4 weeks	4–6 mo.
Beaumont, Tex	380	440	500	4–8 weeks	6–10 weeks	8–12 weeks.
New Mexico	300	340	440	2 mo	3 mo	3 mo.
Albuquerque, N. Mex	460	450	510	8 weeks	12 weeks	12–16 weeks.
Oklahoma City and Tulsa, Okla.	325	400	480	90–120 days	90 days	90 days.
West:						
California	190	190	240	Approximately 30 days.	Approximately 30 days.	Approximate 30 days.
Boise, Idaho	240	270	340	1–2 weeks	1–2 weeks	1–2 weeks.
Portland, Oreg	290–300	300–340	340–400	6–8 weeks	6–8 weeks	4–6 weeks.
Utah	300	305	320	2 weeks	2 weeks	2 weeks.
Seattle, Wash	490	352	380			
Building [4]	[5] 253		([6])			
Bridge	246	312	340			
Average	314	347	394			

[1] No firm quote.
[2] As of date of shipment.
[3] Delivered price over 3-mo period varies from $280–$360.
[4] Small bars—normal.
[5] Normal bars.
[6] Withdrawn and changed to price at time of delivery.

Statement of American Motors Corporation

This statement is submitted by American Motors Corporation (AMC) and its subsidiaries in support of a proposed amendment to the Export Administration Act of 1969: an amendment exempting from the Act's coverage certain exports of ferrous scrap destined for reimportation into the United States in the form of cast ferrous product. This statement describes a problem that has arisen for AMC under the Act as presently administered, and discusses the effect of the proposed amendment on that problem.

American Motors Corporation

AMC is the fourth largest manufacturer of motor vehicles in the United States. During the 1973 fiscal year AMC and its subsidiaries sold 380,380 passenger vehicles and 66,600 Jeep multi-purpose vehicles to the public in the United States. In addition, AM General Corporation, an AMC subsidiary which procures approximately one-third of its engines from AMC, sold 36,152 vehicles to the United States Government during the 1973 fiscal year. AMC and its subsidiaries currently employ approximately 28,000 employees in their United States facilities. The Canadian subsidiaries employ approximately 3,600 people.

Holmes Foundry, Ltd.

Nearly all of AMC's vehicles utilize a fuel-economy six-cylinder engine. The cast iron blocks for these engines are produced for AMC by AMC's Canadian subsidiary, Holmes Foundry, Ltd., Sarnia, Ontario. AMC began using Holmes as its engine block source in 1962. In 1970, AMC acquired total ownership of Holmes, which now exports its entire production to the United States. In addition to being AMC's sole supplier of six-cylinder blocks, Holmes also supplies other United States customers, including Continental Motors Corporation and Hercules Corporation. The latter manufactures the blocks into engines for installation in U.S. military vehicles.

Production of Engine Block Castings

Holmes' engine block castings are molded from processed steel scrap which has been melted and mixed with other materials. The rough castings produced for

AMC are transported to AMC's engine plant in Kenosha, Wisconsin. There the castings are machined and assembled into completed engines. The completed engines are distributed to AMC assembly plants in Kenosha, Wisconsin; and Brampton, Ontario, Canada; as well as to AMC's Service Depot in Milwaukee Wisconsin. The engines for Jeep multipurpose vehicles and AM General Government vehicles are shipped to Toledo, Ohio, and South Bend, Indiana. Some of the completed engines are sold by AMC to International Harvester in the United States.

Approximately 5% of the vehicles produced in Kenosha, Wisconsin, are for sale in Canada while over 80% of the vehicles produced in Brampton, Ontario, are shipped into the United States for sale.

Historically, Holmes has obtained about 60% of its scrap from the United States, turning to the Canadian market for about 40%. Because all of the engine block castings produced from the combined Canadian and United States scrap are shipped back to the United States, Holmes generates a net scrap advantage for the United States even after an appropriate discount for sales of vehicles in Canada (7%).

IMPOSITION OF EXPORT CONTROLS FOR FERROUS SCRAP

Following enactment of the Export Administration Act of 1969, (50 U.S.C.A., App. 2401), the Department of Commerce established an export-reporting system for certain commodities thought to be in relatively short supply. The system serves as a warning mechanism to indicate excessive foreign demand on these commodities.

In July, 1973, the Department determined that foreign demand for ferrous scrap was creating a serious inflationary problem domestically. To ease the pressure, the Department imposed a quota on exports of the commodity. Allocation of export licenses under the quota system was originally based on an allocable percentage of each exporter's existing contractual obligations. The allocation system was revised in the latter part of 1973, premising future quota allocations on an exporter's historical percentage of ferrous scrap exports. For the first quarter of this year, exports were restricted to 2.1 million net tons. On April 11, the Office of Export Control announced that the same procedure would be continued for the second quarter. Thus licenses for exports to friendly foreign nations and historical customers for the first six months of 1974 will be limited to 4.2 million net tons of ferrous scrap. Of this amount, .2 million tons will be set aside for certain contingencies.

AMC'S EXPERIENCE UNDER THE SHORT SUPPLY CONTROLS

As the quota restrictions under the Short Supply Controls (15 C. F. R., Part 377) began to restrict the ability of Holmes' United States scrap suppliers to export sufficient quantities of ferrous scrap, Holmes also found it increasingly difficult to obtain scrap on the Canadian market. In an effort to minimize the impact of the export controls, AMC undertook an exhaustive but futile search of the domestic market for suppliers who have export licenses or could obtain them upon application. Holmes also attempted to broaden its Canadian sources of supply in order to bolster its inventory and maintain production. Finally, both AMC and Holmes expended considerable time and effort assisting Holmes' United States suppliers in an effort to fully utilize the licensing program imposed by the controls. Despite these efforts, Holmes' scrap inventory has on recent occasions become perilously low, and but for the assistance of the Office of Export Control personnel expediting license applications of Holmes' domestic suppliers, Holmes would have been required to shut down its foundry on at least one occasion for lack of scrap. This would have resulted in the closing of AMC's United States production lines.

Although AMC has been fortunate to date in avoiding any significant curtailment of its production schedules, AMC cannot project continued success in this regard with confidence. Indeed, because of the lack of available scrap on the Canadian market, Holmes will be forced in the future to rely even more heavily on scrap from the United States, up to perhaps 80% of its total needs. At the same time, Holmes' monthly average consumption has increased from 1,650 net tons for the last seven months of 1972 to a monthly average estimate of 3,018 net tons for 1974. The requirements beyond 1974 are even greater being dictated by the necessity of keeping pace with the increased production of AMC vehicles that has resulted from increasing demand for AMC's fuel-economy cars.

AMC's projections indicate that, assuming continuation of the current level of export allocations to Holmes' suppliers and also assuming that Holmes will be able to obtain a level of scrap supplies on the Canadian market equal to those available during 1973, Holmes will fall short of its projected needs in September of this year. Then, following new shipments in the final quarter, Holmes will again fall short in December. These shortfalls will at minimum necessitate curtailments in AMC's domestic production and possibly entail full shutdowns for short periods. Obviously, further supply restrictions on the Canadian market could disrupt production even more drastically.

ALTERNATIVE MEANS EXPLORED TO OBTAIN ENGINE BLOCKS

In order to remedy this supply problem, AMC has pursued two avenues in addition to seeking administrative relief under the export regulations. AMC has attempted to locate foundries within the United States capable of producing sufficient engine block castings to meet AMC's increased needs. AMC has not been successful in this effort. Although this lack of success is attributable to many factors, in general it results from the absence of available foundry capacity in the United States capable of producing AMC's requirements at the desired quality and at acceptable cost. As explained in the Institute of Scrap Iron and Steel, Inc., publication, "Iron and Steel Scrap, A Raw Material in Demand": "although operating at capacity, neither the steel nor foundry industry have been able to meet the demand for their products. Their response has been to supply the needs, as well as possible, of their 'regular' customers. In essence the steel and foundry industries are selective in deciding who would receive their finished products . . ."

The other alternative considered by AMC was to build a foundry in the United States to produce the additional engine blocks. However, aside from numerous other prohibitive problems, the two to three years lead-time required to bring a foundry "on-line" would leave AMC without critical relief needed in the interim.

THE PROPOSED AMENDMENT OF THE ACT

As an appropriate resolution of the export supply problem it confronts, AMC supports a proposed amendment to the Act: an amendment entirely consistent with the purposes of the Exportation Administration Act of 1969. The Act presently empowers the Secretary of Commerce to impose export restrictions whenever he determines that such restrictions are necessary (1) to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of abnormal foreign demand, (2) to further the foreign policies of the United States and (3) to further the national security of the United States. This amendment does not affect in any way the Secretary's authority with respect to the latter two purposes.

This amendment relates only to the Secretary's power to restrict exports of commodities for the purpose of protecting the domestic economy from inflationary pressures of excessive foreign demand. The amendment would exempt from such restrictions any exports of ferrous scrap which, at the time of export, are destined for importation and consumption in the United States in the form of cast ferrous product containing at least an equivalent weight thereof. The requirement of reimportation of a cast product of equivalent weight guarantees that the United States economy will not suffer a net loss of its iron or steel resources. Indeed, as exemplified by the AMC-Holmes situation, the United States may incur a net resource increase if the import supplier utilizes both foreign and domestic resources in the product returned to the United States and if that supplier would not have otherwise been able to act as a supplier to the United States customer.

CONCLUSION

AMC believes that the supply problem it faces—though perhaps unique—is sufficiently critical to warrant affirmative legislative action. The problem is real and imminent, and its affects potentially thousands of people employed by AMC, its subsidiaries and suppliers. The proposed amendment represents a rational solution to the problem. It provides the needed relief without disrupting in any way the overall economic policies enacted by Congress in the Export Administration Act of 1969.

American Motors Corporation

EMPLOYMENT STATISTICS

AMC Kenosha (passenger car & engine assembly), Wisconsin	11,800
AMC Milwaukee Body Plant, Wisconsin	4,000
AMC Milwaukee National Parts Distribution Center (service parts distribution), Wisconsin	880
Coleman Products Co. (automotive wiring), Wisconsin	430
AMC Central Offices, Detroit Mich	1,800
Evart Products Co. (plastic parts), Evart, Mich	1,080
Mercury Plastics Co. (plastic moldings), Mt. Clemens, Mich	144
American Motors Sales Corp. (regional sales offices), Various	735
Jeep Corp. (assembly & engineering), Toledo, Ohio	5,000
Windsor Plastics, Inc. (plastic moldings), Evansville, Ind	430
AM General Corp. (trucks & utility vehicles), Indianapolis, South Bend, Mishawaka, Ind., Wayne, Mich	250
American Motors (Canada) Ltd. (passenger car assembly), Brampton, Ontario, Canada	1,720
Holmes Foundry, Ltd., Canada	650
Canadian Fabricated Products, Ltd., Ontario (soft trim) Canada	770
Canadian Sales Offices, Canada	470

TOTAL EMPLOYEES BY STATE

Wisconsin	17,110
Michigan	3,274
Ohio	5,000
Indiana	2,560
Canada	3,140
Others:	
U.S. Sales Offices	735
Canadian Sales Offices	470

Electronic Industries,
Washington, D.C., May 3, 1974.

Re: H.R. 13838, extending the Export-Import Bank Act of 1945

Hon. Thomas L. Ashley,
Chairman, Subcommittee on International Trade, House Committee on Banking and Currency, Washington, D.C.

Dear Mr. Chairman: Our Association welcomes this opportunity to state our views as to extending the Export-Import Bank Act of 1945 and increasing the Bank's funds. Our companies' ability to export has, time and time again, been implemented because our customers abroad have been able to buy on credit. That they have bought from an American source is attributable in significant degree to EXIM Bank, its Foreign Credit Insurance Association, its Cooperative Financing Facilities in customers' countries, and its participation in the Berne Convention.

EXIM's presence among the national financial institutions observing the Berne Convention has benefited American electronic manufacturers. Although they offer products of high technological content, American companies cannot get the business on quality and price alone; they must also be enable dto extend time-payment terms comparable with those offered by overseas competitors. In many types of components and equipment, overseas competitors approach our quality and better our price. Fortunately, their latitude on credit terms is circumscribed by the Berne Convention, where EXIM's presence keeps our credit terms comparable with those being offered by other nations.

EXIM has been as helpful to our companies and people as any arm of Government. We sincerely hope that the Bank's new Chairman and President, Mr. William J. Casey, will continue the forward momentum imparted by Mr. Henry Kearns, whose aggressive and businesslike direction of EXIM's activities made it so helpful.

Earnest advocates of EXIM's continuity and growth, we recommend that the "Guarantees and Insurance" limitations be increased as proposed in paragraph

(c) of H.R. 13838, that the "Commitment Authority" be increased as proposed in paragraph (d), and that EXIM's statutory existence be extended as proposed in paragraph (e). In actively endorsing paragraphs (c), (d), and (e), we do not imply any opposition to paragraphs (a) and (b); the latter we regard as relating to EXIM's internal practices.

We explicitly endorse Under Secretary Bennett's testimony of April 30, to the Subcommittee on International Trade of the House Committee on Banking and Currency, wherein he said:

> ". . . we shall need an Ex-Im Bank capable of insuring that U.S. producers for export are not shouldered out of the market by foreign competitors supported by governmental credit assistance. The proposed legislation can serve to reduce that danger in two ways; by authorizing the Bank to extend assistance competitive with that actually being offered by foreign governments; and by placing the Bank and the Treasury in a convincing position to explain to other governments that any attempt by them at extreme credit subsidization will be self-defeating, since that Bank will be empowered—and directed—to meet that competition."

Now going one step further than Secretary Bennett, we recommend that the Export-Import Bank Act be broadened to require that EXIM meet the terms offered by multilateral financial institutions like the World Bank; here we refer only to non-concessional, long-term project financing. In this area, the World Bank typically offers 20-year financing with a 4-year grace period, whereas EXIM very rarely offers more than 12 years with three years of grace. As a result, projects which might have been financed by EXIM and, hence supplied by U.S. Industry are, because of World Bank policy, thrown open to world-wide competition and often lost to U.S. firms and their employees.

We urge that you amend the Act so that EXIM be required to meet the terms on non-concessional, long-term project financing which are available through multilateral financial institutions like the World Bank. In so urging, let us emphasize that we are not here referring to concessional, so-called "soft", credits bearing interest rates on the order of 3% but, rather, to "hard" credits presently bearing 7%–8% interest rates AND 20-year terms. Projects for utilities systems are, for example, financed on "hard" terms by the multilateral institutions. EXIM has engaged in such long-term non-concessional financing in at least three recent instances; there is precedent for its doing so more often.

We ask whether amendments other than the foregoing are necessary and, if so, whether they properly belong in the Export-Import Bank Act.

The purpose of the Bank is to increase the foreign earnings of the USA and employment in the USA through increasing the export sales of American goods and services by American companies and people. The achievement of this fundamental purpose, the long-term effectiveness of which has been amply proved, should not be obstructed by considerations not bearing on the need to increase the USA's employment and its foreign earnings.

The imposition of constraints on our ability to consummate export sales in certain countries does not prevent such countries from fulfilling their needs, since similar merchandise can be obtained from our foreign competitors, and on attractive credit terms supported by their governments.

Where the Act requires authorization by the President of EXIM's extending its facilities under controversial circumstances, such authorizations should be granted on a "country" basis. To do otherwise as, for example, to require authorization on a project-to-project basis, would slow down the process of increasing the nation's exportation and diminish its favorable impact on the USA's employment and its foreign earnings.

The strongest allies of the USA are also our sharpest competitors, and the technological capabilities of our foreign competitors should not be underrated. The imposition of constraints on U.S. Industry's ability to consummate export sales in certain countries would not give the USA leverage for altering the conduct of those countries.

This Act should not be burdened by efforts to alter the conduct of other nations. Nor should this Act be burdened with controls on the exportation of "sensitive" merchandise to certain countries.

EIA's 220 member companies represent approximately 85% of the $31.3 billion annual sales by American electronic industries, employing several millions of people. On this Industry and its companies and people, the nation relies heavily for merchandise of high technological content and, consequently, for exportable

products. We export not only consumer and scientific equipment, but also assemblies and components, with the result that much electronic equipment made in other countries contains American components.

Our companies' manufacturing volume right here in the USA is augmented by the extent to which products made in the USA can also be sold abroad. That volume, in turn, governs the number of American technicians and workers employed by our companies. Presently, well over one million are directly employed; even more are indirectly employed by American wholesalers and retailers, suppliers and subcontractors. These millions of peaple are, in turn, consumers of the produce and products of other, agricultural and industrial, Sectors of the USA's economy. On behalf of this Industry, its companies and other employees, we earnestly urge the House to extend EXIM's life, increase its means, and harden its mandate to compete in the world's financial community.

Copies of this letter are being sent to each member of the Subcommittee on International Trade and to the Chairman of the Committee on Banking and Currency.

Very truly yours,

V. J. Adduci,
President.

Electronic Industries Association,
Washington, D.C., May 6, 1974.

Re: H.R. 13840, extending and amending the Export Administration Act of 1969.

Hon. Thomas L. Ashley,
Chairman, Subcommittee on International Trade, House Committee on Banking and Currency, Washington, D.C.

Dear Mr. Chairman: We welcome this opportunity to state our views as to extending and, possibly, amending the Export Administration Act of 1969. EIA's 220 member companies represent aproximately 85% of the $31.3 billion annual sales by American electronic industries, directly employing well over one million people. On this industry, its companies and people, the nation relies heavily for merchandise of high technological content, and, consequently, for exportable products.

Our companies have had considerable experience in operating under the provisions of the present Act, which has been particularly sound legislation, and continues to be so.

For example, the Act provided very well for an eventuality of shortages. When they did materialize, it permitted the imposition of export controls on merchandise in short supply. Whereas amendment on this score is being contemplated, it is not, in our opinion, warranted.

For further example, the Act provided very well for controls on the exportation of technology. Amendment is being contemplated on that score, seeking to require that copies of agreements be submitted with 15 days of execution. Two reasons for that have been advanced. First, because "significant strategic technology might inadvertently be transmitted to the Communist country." Second, because the Commerce Department wants "to assist such (American) firms more promptly in carrying out those transactions."

Whereas the Commerce Department's desire to assist is welcome, American firms' requests for assistance should be voluntary. Compulsory assistance, with all of its penalty implications, is not the American way. Whereas the Commerce Department's desire to forestall inadevertent transmission of technology is understandable, we fail to see how governmental review of fundamental documents would avoid inadevertent disclosure. Please bear in mind that the transactions by which particular drawings and data are sold to Communists countries are already controlled under the Act.

Such agreements cannot be transmitted from far-off places to the USA, translated into English reflecting their true intent, be typed and re-transmitted to Washington within 15 days. If it be deemed essential to add new controls and to specify a time limit, then it should be 60 days.

Given the adequacy of the Act's present provisions, we favor extending the present Export Administration Act for a period of three (3) years. We feel that amending it is not necessary.

However, we recommend that the House more fully instruct the Department of Commerce on implementing the Act as extended. Toward expressing its intent

as to how the Act should henceforth be carried out, we urge that the Committee now include sufficient and specific instructions in the legislative history and its Report to the House. The Act need not be amended in order to convey instructions.

The intent is that certain exports be controlled while general exportation is increased. Both functions reside in the Department of Commerce: the former in the Office of Export Administration within the Bureau of East-West Trade; the latter in the Office of East-West Trade Development also within the Bureau of East-West Trade, as well as in the Bureau of International Commerce. We make these recomendations:

AUTHORITY TO DECIDE: The Commerce Department should:

(*a*) assert more of its authority under the Export Administration Act to reach decisions in the nation's best interest;

(*b*) attach much greater importance to the nation's now serious need for increased exportation when deciding (in the nation's best interest) whether to permit or prohibit an export; and

(*c*) attach much greater importance to the export potential for American components in foreign markets. Improve the exportability of components having high technological content by reducing controls on the reexportation by other countries of their products containing such components.

RULE OF UNANIMITY: The Commerce Department's procedure requires unanimous consent by all governmental activities impinging for reasons of Security or Supply on the field of export controls, or else a proposed transaction is prohibited. The individual recommendations of other governmental activities or of other COCOM nations should not cause the Commerce Department to act before its prospective customer's deadline for bids has expired, and must feel that its expenditure for preparing the bid and pursuing the order will be warranted.

PRIVATE INDUSTRY CONSULTATION: The Commerce Department should more fully implement the Act's admonition that ". . . representatives of United States industry and government consult on questions concerning technical matters, worldwide availability and actual utilization of production and technology. . . .

The Commerce Department should place more reliance on industry as government's partner: Create more Technical Advisory Committees: Broaden the scope of their Charters: Utilize these Committees.

NOTE: Our Association is undertaking to address the Commerce Department on the wider use of Technical Advisory Committees. The TAC is the appropriate vehicle for partnership between Government and Industry.

The American electronic companies for which we speak have learned to protect their own best long-term interest. They seek approval of such export transactions as exploit their superior technology while it is still superior, but after the prototype of its successor has been tested.

The Commerce Department should obtain more information as to prospective markets and specific sales opportunities for products of high technological content, and distribute such information more promptly to more companies. It is industry that must act on such information in order to increase our exportation.

FOREIGN TECHNOLOGY: Export control procedures have not recognized that the United States Government's strongest allies also contain U.S. industry's sharpest competitors. Government does tend to underrate the technological capabilities of our foreign competitors. Suppression of our export enables foreigners to sell similar merchandise; even delay gives them time to develop equivalent merchandise.

The Commerce Department should obtain industry's guidance on the availability of similar or equivalent products from manufacturers in third countries. If an American export were to be prohibited, could the prospective customer's purpose be served by procurement from third countries?

Copies of this letter are being sent to each member of the Subcommittee on International Trade and to the Chairman of the Committee on Banking and Currency.

Very truly yours,

V. J. ADDUCI,
President.

WEMA,
Palo Alto, Calif., May 7, 1974.

Hon. THOMAS L. ASHLEY,
Chairman Subcommittee on International Trade of the Committee on Banking and Currency, U.S. House of Representatives, Washington, D.C.

DEAR MR. ASHLEY: WEMA wishes to present, for the record, its views on H.R. 13840, The Export Administration Act Amendments of 1974. Arthur Hausman, President and Chief Executive Officer of Ampex Corporation of Redwood City, California expressed the views stated below in testimony before the International Finance Subcommittee of the Senate Banking, Housing and Urban Affairs Committee on April 25, 1974. We forward them for your consideration and that of your Subcommittee.

WEMA is a trade association of 175 companies, located primarily in the Western United States. WEMA member companies share a common interest in that they are all engaged in sophisticated electronics and information technology. A preponderance of WEMA member companies are small-to-medium in size, designing and manufacturing high-technology components and equipment for a number of end markets. Some of the types of equipment WEMA member companies manufacture are: computers and computer peripheral equipment; semiconductor devices, such as transistors, diodes and integrated circuits; test equipment such as oscilloscopes, signal generators, counters and voltmeters; calculators; telecommunications equipment, such as radio transmitters and receivers, and finally, components such as tubes, resistors, capacitors and similar items.

INTRODUCTION

The sale of high-technology products abroad—such as those manufactured by WEMA member companies—has been one of the prime areas in which the U.S. has continued to hold its own in the world marketplace. According to U.S. Department of Commerce statistics, the favorable balance of technology intensive exports over imports ranged from $7.5 billion to over $10 billion in the past sixteen years. Last year, the favorable balance in these produce areas was $10.7 billion.

Despite strong competition abroad, most WEMA companies have been successful in maintaining a technological lead over their foreign competitors. In a survey concluded last month, 189 responding WEMA companies—whose sales volume last year amounted to slightly over $4 billion or approximately 54% of the total sales of our entire membership—indicated that 27% of their 1973 sales came from the export of U.S. manufactured products. This is a substantial increase over several years ago when a majority of the respondents to a similar survey indicated that their international sales accounted for between 5% and 15% of their total sales.

In 1973 U.S. exports to the Communist countries were well over $2½ billion. Although close to 80% were agricultural products, principally wheat, corn and soybeans. U.S. exports of industrial commodities played a prominent role, increasing some 7½ times to almost $200 million in the period 1965 to 1972.

EXPORT ADMINISTRATION ACT OF 1960

In 1969, WEMA member companies supported Congressional efforts to reduce the complexities, uncertainties and delays in the administration of U.S. export controls and thus increase trade in peaceful goods with the USSR and the socialist countries of Eastern Europe.

As a result of these efforts, the Export Control Act of 1949 was substantially amended. The retitled Export Administration Act of 1969 encouraged:

1. A reduction in the unilateral U.S. export controls to a level more nearly consistent with the COCOM controls observed by the other major non-communist countries.
2. Increased contact with the U.S. business community so that it would be:
   a. consulted, consisted with considerations of national security, on proposed changes in export control policy and procedures;
   b. informed when changes in export control policy and procedures occurred, and
   c. notified of licensing delays, given an opportunity to present additional information, and informed of the reasons for denial of export license application.

As a result of these legislative changes, substantial progress was made towards reducing the level of U.S. unilateral export controls. Earl Wantland, President of Tektronix, Beaverton, Oregon, appeared in WEMA's behalf before the International Finance Subcommittee of the Senate Banking, Housing and Urban Affairs Committee two years ago. Mr. Wantland reported that prior to adoption of the 1969 Act, his company was able to sell only about $1.25 out of every $100 of its products under general license—without restriction—to the USSR and East European countries. In 1972, Textronix was able to sell about $25 out of every $100 to these same areas without restriction.

EQUAL EXPORT OPPORTUNITY ACT OF 1972

In 1972 in hearings before the same Senate Subcommittee, WEMA recommended that additional changes be made in the Export Administration Act of 1969 which would permit our high-technology companies to compete more effectively in the USSR, East European and Chinese markets.

Specifically, WEMA recommended: (1) U.S. unilateral controls be reduced to the level of the COCOM controls; (2) government industry advisory committees be established to review and make specific recommendations on both the U.S. unilateral and the COCOM controls; (3) the authority of the Commerce Department's licensing officers be further increased to permit the processing of more license applications without their having to pass through the time consuming interagency review process, and (4) adequate funding be provided to permit the Commerce Department to employ additional qualified licensing personnel.

Several of these recommendations were incorporated into the Export Administration Act of 1969 via the amending Equal Export Opportunity Act of 1972. Of particular importance to WEMA member firms were the Congressional directives to:

1. Remove U.S. unilateral export controls if the controlled items were ". . . available without restriction from sources outside the United States in significant quantities and comparable in quality to those produced in the United States . . ." and if their decontrol would not ". . . prove detrimental to the national security of the United States . . ."
2. Identify those U.S. export licensing procedures ". . . which may be or are claimed to be more burdensome than similar procedures . . ." of the other COCOM countries.
3. Establish government-industry technical advisory committees "upon written request by a substantial segment of any industry which produces articles, materials and supplies which are subject to export controls or which are being considered for such controls because of their significance to the national security of the United States . . ."

For the most part, WEMA believes that the Department of Commerce has been responsive to the wishes of Congress relating to the removal of unilateral U.S. export controls. As the Committee is well aware, in October, 1972, there were 550 categories on the Commerce Department's Commodity Control List under unilateral U.S. control. Many of these categories included high-technology products manufactured by WEMA companies such as certain digital voltmeters, high frequency voltmeters and accessories, low frequency counters, oscilloscope cameras and accessories, etc. As the Secretary of Commerce pointed out in his special report on Export Controls, on May 29, 1973 only 73 of these categories remained under U.S. unilateral control, and the paring down of the list continues. As a result of these efforts, many of the products manufactured by WEMA member companies have been released from U.S. unilateral control.

The Department of Commerce also established seven government-industry technical advisory committees. Six of those committees cover product areas of direct interest to WEMA: Semiconductors; Semiconductor Manufacturing and Test Equipment; Computer Systems; Computer Peripherals, Components and Related Test Equipment; Telecommunications Equipment, and Electronic Instrumentation.

Although WEMA believes that the role of these technical advisory committees should be strengthened, we also believe that these committees as they stand provide access to a vast amount of additional expertise essential to make intelligent decisions about the control of any given product—especially complex, high-technology items. The problem, in short, is how to make most effective use of the technical advisory committees.

While the Commerce Department and the Administration deserve a great deal of credit for the significant progress which has been made during the past two years, WEMA believes that more must be done in the area of export controls if we are to continue to implement the stated policy of the Equal Export Opportunity Act of 1972: "to encourage trade with all countries with which we have diplomatic or trading relations. . . ."

As I noted earlier, WEMA has recently completed a survey of its membership to secure up-to-date information as to the experience of our member companies under, among other things, the Export Administration Act of 1969, as amended.

Twenty-eight percent of the companies responding indicated that they were presently selling in the USSR and/or the Socialist Countries of Eastern Europe. Another forty-two percent indicated that, although no sales had yet been consummated, they were investigating or had a strong interest in doing business in these emerging markets.

The twenty-eight percent doing business in these areas indicated that the present export control process had a considerable impact on their ability to effectively compete in the USSR and the Socialist Countries of Eastern Europe. When asked to specifically identify the difficulties they have experienced, the responding companies identified the following, in descending order of the number of responses:

1. The time consuming and costly requirements relating to obtaining supporting documentation (especially end-use documentation for computer systems and computer peripherals) and preparing license applications. Several companies responding to the questionnaire indicated, for example, that they had been required to submit detailed responses to the same questions repeatedly throughout the export licensing processing process.
2. The extensive time delays in the licensing process which, some of our members believe, have caused them to lose business to their West European or Japanese competitors. Whether or not business has actually been lost in these specific instances is difficult to determine. However, the fact is that, in many instances, export licenses take months to process, and in some instances, no reason is given for the delay. It is worth noting that one of the effects of these delays is to discourage the small exporter, with a limited staff, resources and the expertise. from even attempting to penetrate these emerging markets.
3. The difficulties of understanding and keeping up with the export control regulations. This comment came mainly from small-to-medium sized firms who, understandably, are not well versed in the complexities of export control policies and procedures. Again, however, these complexities effectively prohibit smaller firms from devoting any significant portion of their limited resources to encourage export into the Communist markets.

Interestingly enough, the matter of U.S. denials of license applications for commodities subject to unilateral control, which it is sometimes alleged are supplied subsequently by West European or Japanese competitors, was ranked fourth as a current problem area by the survey respondents. This substantiates the progress which has been made by the Commerce Department in reducing the level of U.S. unilateral controls.

RECOMMENDATIONS

WEMA believes the Export Administration Act should be amended to enhance the competitive position of U.S. high-technology firms anxious to increase their sale of peaceful U.S. goods to the USSR, the Socialist Countries of Eastern Europe, and the People's Republic of China.

SCOPE OF CONTROLS

David Packard, Chairman of the Board of the Hewlett-Packard Company and former Deputy Secretary of Defense testified on WEMA's behalf before the House Ways and Means Committee last year on H.R. 6767, the Trade Reform Act of 1973. In the course of his testimony, Mr. Packard summed up WEMA's views on the matter of export controls very clearly when he said:

> "I want to emphasize the need to be more realistic with respect to the export controls placed on high-technology products. It is essential, of course, that military products continue to be rigidly controlled. However, many of the restrictions placed on the sale of high-technology products designed pri-

marily for commercial use are of doubtful utility. Many of these products are standard catalog items which have been restricted on the basis that they might provide some possible military benefits. When, as is usually the case, these products are freely bought and sold throughout the non-communist world, they can and usually do end up in the communist countries. The net effect, of course, is that controls over these products do not really achieve their purpose. There is no doubt in my mind that our national security needs must come first, but once these needs have been met, I believe that less restrictive policies in regard to commercially available, non-military products would increase communications, promote trade, lessen tension and thus, contribute in a broad way to our national security."

One of the problems in implementing this seems to be a lack of definitions. The Export Administration act abounds in such phrases as ". . . which would make a significant contribution to the military potential of any other nation or nations which would prove detrimental to the national security of the United States." Nowhere in the Act, however, has the Congress defined what constitutes a "significant contribution to the military potential of any other nation," or what does and what does not constitute a threat to our national security. It seems to us that it is essential to have definitions of these terms or at least have criteria which could be uniformly utilized in the inter-agency review process to judge license applications.

We recognize that developing specific definitions of these complex terms within the limited time-frame available to this Subcommittee and the Congress before the expiration of the Export Administration Act might pose an insoluble problem. However, as a minimum, we recommend the Export Administration Act to establish more specific and uniform criteria against which all parties can judge license applications. The following commodity guidelines, listed in Section 370.1 (b)(1) of the Department of Commerce Export Regulations, might be worthy of further consideration:

(i) Its essential features (distinguishing physical or operating characteristics; variations between types, models, grade, etc.; and the technical and strategic significances of these differences).

(ii) Its civilian uses.

(iii) Its military or miltary-support uses.

(iv) Its end-use pattern in the United States.

(v) Its technological state of development (whether it involves a new product and represents the current state of the art; whether it contains advanced technology that can feasibly be extracted).

(vi) Its availability abroad (whether the same or a comparable commodity is available from other non-Communist countries, and where and by whom; whether the foreign product is manufactured abroad with U.S.-origin technology or components).

TIME DELAYS

The second area of concern involves the time delays encountered in the processing of Export License Applications. The problem of delays has been an issue at least since 1969, and remains a serious concern. Delays, which would be a problem in any commercial transaction are especially serious in dealing with lawyers from the USSR, the Socialist Countries of Eastern Europe and the Peoples' Republic of China. This is because U.S. firms already face several disadvantages vis-a-vis their West European and Japanese competitors including: (1) a lack of familiarity with the markets; (2) geographical separation leading to long shipping times and (3) the inability or unwillingness of U.S. suppliers to accept "payment in kind" as a trade off for the purchase of U.S. goods.

WEMA believes that the solution to problems associated with delays in the processing of license applications would be given a major impetus if the Congress were to amend Section 4 of the Export Administration Act to: (1) emphasize that it is in the interest of the U.S. to expedite the processing of license applications and (2) establish a general time frame of perhaps 90 days within which license applications would be expected to be processed, to the maximum extent possible. If more time is required, the applicant shall be notified as to the reasons for the delay.

WEMA also believes it is essential for the Congress to recognize that there is a serious shortage within the Commerce Department of technically qualified licensing personnel and modern management methods. These problems were

compounded last year when the existing export licensing personnel were asked to handle a number of the commodities in short supply.

With respect to the personnel problem, WEMA believes that the Congress should either appropriate additional funds or direct the Commerce Department to reallocate its budget to employ an adequate number of well-qualified licensing officers who will be able to process cases at a more rapid rate and who, through selected travel abroad, can become familiar on a first-hand basis with actual conditions existing in many of the countries to which U.S. products are licensed. We believe that well qualified licensing officers familiar with conditions abroad will not need so much supporting information thereby speeding up the licensing process.

We also recommend that the authority of the Commerce Department's licensing officers be further increased so that more license applications can be processed without having to pass through the time-consuming interagency review process. This could be more easily accomplished if the Congress were to establish some uniform criteria—such as those I have proposed—against which license applications can be judged.

A second important factor hindering the Commerce Department's ability to administer the Export Administration Act is the lack of modern business methods in the Export Licensing process. At the present time, for example, most every license application is treated as a totally new case, and relevant information concerning prior cases is retrieved manually. Clearly, there is a pressing need for a computerized data bank which would do much to expedite the processing of licensing applications and reduce the amount of documentation required. Again, this is largely a monetary problem and WEMA hopes that the Congress will either appropriate additional funds or direct the Commerce Department to reallocate existing monies so that it may better administer Export Controls.

TECHNICAL ADVISORY COMMITTEES

A third area in which WEMA believes that the Export Administration Act can be strengthened relates to the role of the technical advisory committees. There is no question in our minds that the technical advisory committees offer the government unique access to the technical and commercial expertise which can be provided only by representatives of industry affected by export controls. We believe, however, that these groups must be more effectively utilized by both the executive and legislative branches of government.

In this context, WEMA believes that the Congress should reaffirm the importance of Sections 5(c) (1), (2), (3) and (4) of the Export Administration Act of 1969 as amended by the Equal Export Opportunity Act of 1972. In addition, we recommend that the sections, relating to government-industry technical advisory committees should be amended to:

1. Specify in Section 5(c) (1) that government appointments to these committees specifically include representatives of the Departments of Defense, State and Commerce, the Central Intelligence Agency, NASA and the Atomic Energy Commission, instead of, as presently worded "each such committee shall consist of representatives of United States industry and government."

   The Secretary of Commerce, in his May 29, 1973 special report on Export Controls, praised industry for being "gratifyingly generous in offering the services . . . of their most eminent technical personnel . . ." to these technical advisory committees. In light of this and because the purpose of the technical advisory committees is to provide and assist the Secretary of Commerce and "any other department, agency or official of the Government of the United States to which the President has delegated power, authority, and discretion . . ." we can see no reason why the aforementioned agencies—each of which has an important role in the export control process—should not be required by law to be represented on and actively participate in the relatively limited number of government-industry advisory committees.

2. Require, consistent with security considerations as defined by the Act, that copies of the reports and recommendations of the government-industry advisory committees be forwarded to the committee in the Congress having jurisdiction over the Export Administration Act and the broader policy issues relating to trading with the USSR, the Socialist Countries of Eastern Europe and the Peoples' Republic of China.

   At the present time, the government-industry technical advisory committees are appointed by and report to the Secretary of Commerce. The Sec-

retary of Commerce is solely responsible for the distribution of their reports to the other executive agencies exercising jurisdiction in the Export Control process. We believe, however, that the Congress should be kept abreast of the work of the technical advisory committees in order to properly evaluate their contribution and measure the degree to which the executive agencies are responding to the Congressional intent underlying their creation.

3. Reduce the degree of security classification surrounding participation on the technical advisory committees.

At the present time, the government informs the industry representatives that they serve only as individuals. Further, much of the material furnished by industry, through the expertise of the "individuals" serving on the committees, is placed under security classification. This means effectively that most of the subsequent committee deliberations cannot be brought back to industry for review comments or for additional technical expertise. We recognize that some of the subject's matter associated with the technical advisory committee's work should be classified. However, in our view, much of it should not be including matters relating to delays in the licensing process, the interagency review activities, staffing problems, etc. We believe that it is essential that there be greater interplay between industry "individuals" serving on the technical advisory committees and the industry from which they have been drawn. We hope this Subcommittee will direct the Commerce Department to review and revise its present classification practices to permit this.

4. *Direct the Secretary of Commerce to provide adequate staff support for the technical advisory committees.*

At the present time, staff support is supplied by the Office of Export Administration which, as I have already indicated, is heavily burdened with the licensing process. If the technical advisory committees are to fulfill the role which the Congress expects, they must receive a greater degree of administrative support.

TECHNOLOGY AGREEMENTS

Section 3 of H.R. 13840 would amend Section 7 of the Export Administration Act to require U.S. firms and their foreign affiliates to report within 15 days to the Department of Commerce any written understanding which would likely result in the export to a Communist Country of U.S.-origin technical data which is not generally available to the public.

In his testimony before this Subcommittee on April 5, 1974, Secretary Dent indicated that this amendment would:

1. "Permit the government to consider in a timely manner the strategic implications of such undertakings . . . but . . . also enable the Department to assist such firms more promptly in carrying out those transactions that do not involve overriding national security implications."
2. Alleviate the risk that as a result of signing such an agreement that "significant strategic technology might inadvertently be transmitted to the Communist country."

We commend the Department of Commerce for looking for ways to assist and expedite commercial transactions with the various Communist countries, in fact, we would even go further. The amendment as written would tend to create a one-way flow of information when what is needed is increased dialogue between U.S. firms and our government. Technical cooperation agreements are general in nature, and offer a number of alternatives for the participants. It would appear that this amendment would be strengthened if, after receiving the details, the Department of Commerce were obligated to review the agreement and indicate to the company any potential problem areas which might occur.

We do have one reservation however, and that is that the adoption of this amendment, wtihout also increasing the technically competent staff and improving the management tools of the Commerce Department, will simply add another burden on an already overloaded staff and, rather than expediting, may result in increased delays in the subsequent licensing process. We urge the Subcommittee to consider this potential problem area and take whatever steps may be required to prevent increased delays that might occur as a result of the adoption of this amendment.

SUMMARY

In summary, I wish to reiterate WEMA's belief that the Department of Commerce has made significant strides towards reducing the level of U.S. unilateral export controls which have been a major problem confronting high-technology companies in their efforts to sell their products in the USSR, the Socialist Countries of Eastern Europe and now the Peoples' Republic of China.

At the same time, in our view, there are additional areas that should be considered by the Congress if our high-technology companies are going to compete more effectively in these growing markets. These areas are: (1) defining what constitutes a "significant contribution to the military potential of any other nation or nations which would prove detrimental to the national security of the Untied States . . ." or at least establishing criteria to assist all agencies in evaluating license applications; (2) eliminating unnecessary delays in the export licensing process; (3) utilizing more effectively the resources of the government-industry technical advisory committees; and (4) providing the Commerce Department with adequate staff and management tools to fulfill its obligations to the Congress under the Act. Action in these areas is essential if we are to bring our export control processes into line with realities of doing business in the USSR, the Socialist Countries of Western Europe and the Peoples' Republic of China.

Finally, we would recommend that the Administration's proposed amendment to Section 7 of the Export Administration Act presently contained in Section 3(c) of H.R. 13840 be modified to require the Commerce Department to report back to the U.S. company after it has received the transaction as to any problem areas which might arise.

I hope our thoughts and recommendations are of some value to you and other members of your Subcommittee as you consider H.R. 13840.

Sincerely,

EBEN S. TISDALE,
Vice President.

HEWLETT-PACKARD,
Palo Alto, Calif., May 2, 1974.

Hon. THOMAS L. ASHLEY,
Chairman, Subcommittee on Banking and Currency, House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: The Hewlett-Packard Company has a keen and continuing interest in the export control procedures of the United States and the various friendly Western Governments. For this reason, we wish to comment at this time on the provisions of H.R. 13840, cited as the "Export Administraton Act Amendments of 1974", currently under consideration by the Subcommittee. We also wish to comment on the national security portions of the Export Administration Act of 1969, as amended, and suggest certain changes which we believe would assist U.S. exporters in their dealings with the Communist countries.

The Hewlett-Packard Company is a major designer and manufacturer of test instrumentation used in the fields of electronics, medicine and chemistry for scientific research, engineering, production and maintenance. The Company oriented computers and selected peripheral equipment.

In fiscal 1973 (year ending October 31) shipments reached an all time high high of 661 million dollars while the value of orders received totalled some 734 million dollars. 42% of these orders, 311 million dollars, were received from customers outside the United States, mostly in Western Europe, Canada, Japan, Australia and the other more highly industrialized countries of the Western world. 242 million dollars, or approximately 78% of this international business, came from Hewlett-Packard's U.S. factories. The balance was supplied from Hewlett-Packard's international factories which, incidentally, in 1973 used some 20 million dollars worth of U.S. origin parts and components in the manufacture of their products.

H.R. 13840

H.R. 13840 embodies the Administration's recommendations regarding the Export Administration Act of 1969, as amended. It would: (1) amend Paragraph (2) of Section 3 to permit the imposition of export controls as retaliation

against a nation or group of nations which unreasonably deny U.S. access to particular commodities, (2) amend Section 4 to enable the use of an export fee or an auction system to regulate the export of commodities in short supply, (3) amend Section 7 to expressly require U.S. firms and their affiliates to report within 15 days any written understanding which would be likely to result in the export to a Communist territory other than Yugoslavia of U.S. origin technical data not generally available, and (4) extend the amended Act for a three-year period, until June 30, 1977.

Short supply provisions

The problems of access to scarce raw materials needed to support the economy of the United States and promote the welfare of its citizens calls for immediate attention. The export controls placed by the Arab countries on oil shipments provide the most dramatic illustration of the difficulties we and other countries face in obtaining raw materials. Similar export controls could, however, be imposed by other countries on other raw materials presently or potentially in short supply. The United States is already more than 50% dependent on imports for six of the thirteen major raw materials required by our industries. Estimates show that by 1983 we will be dependent on imports for nine of these materials.

The Hewlett-Packard Company believes that the only way to deal effectively with the problem of unjustified restrictions on raw materials is through increased multi-lateral cooperation, preferably within the GATT. We, therefore, support the position taken by Senators Mondale and Ribicoff and subsequently endorsed by the Administration that language be included in the Trade Bill, H.R. 10710, which would strengthen the GATT provisions and/or other international agreements to include rules governing access to supplies of food, raw materials and manufactured products. We also believe it would be useful for the United States negotiators to seek an extension of the GATT provisions which would authorize multi-lateral sanctions against countries which by their actions in limiting access to vital supplies, substantially injure the international community.

Good intentions and a wish to work through the GATT and other international institutions, however, may be insufficient. We, therefore, agree with those provisions of H.R. 13840 which would modify Paragraphs 3 and 2 of Section 3 of the Export Administration Act of 1969 to state that it is the policy of the United States: (1) "to deal with world shortages of particular commodities, whenever feasible, through international cooperation with major supplies and consumers of such commodities, rather than by taking unilateral actions", and (2) "to the extent appropriate to retaliate against a nation or a group of nations which have unreasonably restricted United States access to their supply of a particular commodity". We believe this language, permitting a flexible response, would be extremely useful in the unfortunate event that a multi-lateral solution through the GATT or other international bodies proves impossible.

I find it difficult to agree, however, with that portion of HR 13840 which would amend section 4(b)(1) of the Act to permit use of an expert fee or an auction system to regulate the export of commodities in short supply. The expressed aim of this provision, that of "providing all exporters . . . with an equal opportunity to obtain licenses", is laudable. In practice, however, the additional charges under a fee or auction system would likely hit hardest the less financially secure small exporters or the new-to-export firms. This would certainly not be equality of treatment. Moreover a fee or auction arrangement might encourage unscrupulous, fly-by-night exporters, who, in search of quick profits, would be willing to pay large export fees or auction premiums. In such instances the interests of the purchasers and the reputable export firms might be harmed since these fly-by-night operators are likely to cut corners and provide little, if anything in the way of before-the-sale assistance or after-the-sale service. I agree that one of the primary goals of any U.S. short supply policy should be an equitable, even-handed application of controls. With this objective in mind, I think it is hard to fault the present system of awarding quotas on the basis of past export history plus providing small, unassigned additional quantities to accommodate the needs of small and new-to-export firms.

Technical Data Provisions

HR 13840 would also amend Section 7 of the Export Administration Act of 1969 by inserting a new sub-section requiring U.S. firms and their affiliates to

report within 15 days any written agreement which might result in the export to a Communist territory of U.S. origin technical data which is not generally available. I believe that, up till now, the vast majority of U.S. firms that have executed such agreements with the Communist countries have taken great pains to keep the U.S. Government informed prior to, during and after the negotiations. However, I can see where problems might arise in the future as the number of agreements increases and as some of the smaller U.S. firms become involved. For this reason, although some may feel 15 days is a little too short, we have no objection to this amendment.

We do believe, however, that something else is needed in addition to the effective one-way reporting function contemplated in the amendment to Section 7. Our experience, admittedly based upon a limited number of negotiated agreements with the Communist countries, is that U.S. firms seems to have no individual or group of people in the U.S. Government to whom they can outline the problems they face and quickly receive comprehensive, high level, responsible advice. It is true that the Bureau of East-West Trade of the Commerce Department is available for consultation. However, many of the actual and potential problem areas fall under the jurisdiction of other departments and agencies within the Government—State, Defense, Justice, Atomic Energy Commission and a host of others.

The Bureau of East-West Trade tries to obtain opinions from these other agencies (providing, of course, that the U.S. firm or the Bureau recognizes that an actual or potential problem exists). Responses, however, are slow and, in our experience, frequently too vague to be very helpful.

We believe what is needed is some sort of an Interagency Committee composed of fairly high-level officials from the various Government agencies. This committee would convene periodically with representatives of U.S. firms involved in negotiations with the Communist countries, who would voluntarily appear to review their problems and receive counsel from the various Government officials, each according to his area of expertise. The Government would benefit under this arrangement by learning first-hand about the problems faced by U.S. businessmen in dealing with the various Communist Governments and the U.S. firms would benefit from the advice. We believe the need for this type of an arrangement is great and will increase as time goes on. For this reason, we urge this Subcommittee to consider the matter and, if appropriate, develop and introduce suitable language into the Export Control Act of 1969 which would authorize the formation and operation of such a committee.

NATIONAL SECURITY PROVISIONS

I would like to discuss now the national security aspects of the Export Administration Act of 1969, as amended, and suggest certain changes which, consistent with the security of the United States, would assist U.S. exporters in their dealings with Communist countries.

Marketing in the Communist Countries

The Hewlett-Packard Company has a continuing and growing interest in marketing its non-strategic products in the Communist countries. This is despite the fact that, to date, only a relatively small amount of our products have been sold in these areas of the world.

Prior to 1967 we believed that the CONCOM restrictions and unilateral U.S. export controls so limited the sale of our products in the USSR and the Socialist countries of Eastern Europe that any serious sales effort would yield small returns, when compared to the returns we might expect from the same amount of effort elsewhere. Late in 1967, however, we decided we could no longer afford to ignore these rapidly growing markets and began a serious, long-range program to increase our sales of non-strategic products.

This effort, started modestly with a single sales engineer and his secretary, has now expanded to a Vienna-based USSR-East European sales force of sixty, approximately one-third of whom are technically trained sales or service engineers. Each sales engineer has an extensive travel schedule which enables him to provide on-the-spot assistance to Soviet and East European purchasers and end-users. In addition, in 1968, and in subsequent years, Hewlett-Packard participated in a number of exhibitions, trade fairs and private showings in the USSR and elsewhere in Eastern Europe. Early in 1973 we received permission to open a technical assistance office in Warsaw. Slightly later, during the same year, we

received accreditation from the USSR and were given permission to open a technical assistance office in Moscow.

Over the years, these efforts have caused a considerable increase in our East European sales—from approximately $100,000 in 1967 to approximately $8 million or about 4% of our European business in 1973. Further substantial increases are anticipated in the years ahead.

Marketing in the Communist countries is a time consuming and frustrating experience in which U.S. firms face an unusual number of handicaps. For example, U.S. companies are relatively inexperienced in dealing with the Communist countries as compared to a number of their West European and Japanese competitors. These competitors have been established in the market for some time and have accumulated considerable knowledge as to which products to sell, whom to contact, what terms to offer, etc. Other handicaps include: 1) the historic close trading relationship between Western and Eastern Europe, where the former has been a major supplier of more highly sophisticated manufactured goods and the latter has been a traditional source of raw materials, agricultural products, chemicals and certain, usually simpler manufactures, 2) the rigidities of the Communist state trading systems and the attendant difficulties this poses for U.S. businessmen and 3) the shortage of hard currency and the scarcity of attractive products, marketing skills and MFN treatment needed by the Communist countries to compete in the U.S. market, an effort which would earn funds which could be used to purchase U.S. goods.

So far as the U.S. Government regulations are concerned ,the Hewlett-Packard Company and similar U.S. firms operating in high technology areas, face two major difficulties in marketing their products in the Communist countries. First is the scope of the export controls and second is the amount of time and effort required to prepare formal license applications and, more importantly, the delays encountered in obtaining licensing decisions.

The Scope of Export Controls

The Congress addressed itself to the scope of the export controls when drafting and passing the Export Administration Act of 1969. This was evidenced by the two substantive changes—the dropping of the economic requirements and the rather extensive qualifications over potential military usage. In addition, the Congress declared "It is the policy of the United States . . . to encourage trade with all countries with which we have diplomatic or trading relations except those countries with which such trade has been determined by the President to be against the national interest . . .". This forthright change in emphasis from the essentially negative provisions of the prior Export Control Act of 1969 encouraged many previously reluctant U.S. exporters to begin the arduous and expensive task of actively selling in the USSR and the Socialist countries of Eastern Europe. The clearly expressed intent of Congress to promote trade in peaceful goods also gave the Administration ample authority to reduce the unilateral U.S. export controls and to modify those practices which had been weighted toward the denial of licenses.

In 1972 the Congress again conducted oversight hearings on the export control activities of the United States. In the 2½ years that had elapsed since the passage of the Export Administration Act of 1969, the Administration, complying with the intent of the Congress "to encourage trade", had removed a great number of unilateral U.S. export controls. In addition, the differentials which had existed between the various Communist countries in the application of these controls were narrowed. So far as the Hewlett-Packard Company was concerned, early in 1972 only about 5% of our worldwide sales was affected by the U.S. unilateral controls applicable to the USSR and most of the Socialist countries of Eastern Europe. This compared to a 53% figure 2½ years earlier! For all practical purposes, U.S. unilateral controls were no longer a significant factor and the Hewlett-Packard Company was operating on virtually the same COCOM list as our West European and Japanese competitors.

One problem, however, loomed large. This was a nagging suspicion about the adequacy of the COCOM controls which affected some 47% of our worldwide sales. We felt, along with many others, that some commodities were being overcontrolled and some, perhaps, not enough. We were concerned that the U.S. Government, in reviewing these controls and recommending retention, modification, phasing out or additions was not sufficiently aware of developments in the commercial sector. As a result, it seemed likely that some areas might be con-

trolled unnecessarily while in others, developments with strategic implications might be left uncontrolled. As a partial remedy we suggested the establishment of a joint Government/Business Committee (or Committees) consisting of technically competent people who, on a periodic and continuing basis, would review the remaining unilateral U.S. controls, the COCOM controls and the U.S. Government's licensing procedures.

As a result of these 1972 oversight hearings, amending legislation was prepared and signed into law. The new legislation entitled "The Equal Export Opportunity Act of 1972", declared, among other things, that it was the policy of the United States to subject all controls to Governmental review in consultation with qualified experts from private industry. To effect this review, the Secretary of Commerce was directed "upon written request by representatives of a substantial segment of any industry which produces . . . (commodities) . . . subject to export controls . . . (to) appoint . . . Technical Advisory Committee(s) . . . (consisting) of representatives of U.S industry and Government". These Technical Advisory Committees were to be "consulted with respect to questions involving technical matters, worldwide availability and actual utilization of production and technology, and licensing procedures which may affect the level of (unilateral U.S. and COCOM) export controls . . .".

During the year and a half which has passed since the passage of the Equal Opportunity Act of 1972, the Secretary of Commerce has established seven Technical Advisory Committees: Semiconductors; Semiconductor Manufacturing and Test Equipment; Numerically Controlled Machine Tools; Telecommunications Equipment; Computer Systems; Computer Peripherals, Components and Related Test Equipment; and Electronic Instrumentation. The first six committees have each held a number of meetings. The Electronic Instrumentation Committee was slow in getting started, holding its first meeting less than a month ago. Although much of the work of the committees is classified and thus not available to the public, they appear to be making some headway in the complicated matter of reviewing and recommending various changes in the U.S. unilateral and the COCOM controls.

The area of computer systems and computer peripherals is one where changes are vitally needed. At the time of the last COCOM review in 1972, the participants could not agree on the various changes which were proposed and, as a result, none were adopted. Meanwhile, technological advances have occurred with increasing rapidity in the computer industry—in the Communist countries as well as in the West. The net effect is that the present COCOM controls are far too restrictive and manufacturers such as Hewlett-Packard that produce minicomputers and related peripherals must submit voluminous supporting documentation—end-use and end-user information, detailed equipment lists, comprehensive block diagrams, extensive technical analyses, etc.—of a type which really should be required only for considerably more complicated equipment.

The computer business has grown remarkably in the past few years. This, plus the fact that the COCOM controls have not been adjusted to keep pace with changes in technology, has meant that the responsible licensing officers in the Commerce Department and the Interagency Review Committee have been burdened with a constantly increasing number of license applications. This increased load plus an archaic system of paperwork and a U.S. penchant for "reviewing a transaction to death" has caused unconscionable time delays which have put U.S. suppliers of computer equipment at a competitive disadvantage. I hope that the Computer Systems and Computer Peripherals Technical Advisory Committees will succeed in their efforts to devise an acceptable set of controls which will release the less-sophisticated, essentially non-strategic equipment. This would reduce the logjam of computer cases and speed the processing of the more complex license applications.

The Technical Advisory Committees have had their problems, particularly in the matter of absenteeism on the part of both industry and Government members and the feeling of frustration some of the industry people have expressed concerning the time it takes to accomplish anything constructive.

The matter of absenteeism is a serious one which, so far as industry is concerned, the Administration has taken steps to correct by requesting the appointment of alternate industry members.

Absenteeism and outright lack of interest of some Government members is another problem. Part of this seems to rise out of the belief by some of the other agencies that the Technical Advisory Committees are a "Commerce Depart-

ment Show" and, thus, they are not vitally affected. This, of course, is not true. In fact, many times essential information needed by the Committees is only available from some Government agency outside the Commerce Department. I think it is high time that all the agencies of the Government realize the importance of this project and, with industry, put in a comparable amount of time, manpower and money so that a comprehensive, adequate and up-to-date set of meaningful controls can be established and maintained. One way to ensure that the various agencies treat the matter with the proper seriousness would be to change the last sentence in Section 5(c)(1) of the Act to read: "Each such committee shall consist of representatives of United States industry and Government, including the Departments of Commerce, State, and Defense and NASA, the Central Intelligence Agency and Atomic Energy Commission."

Frustration at the amount of time required to achieve results is also a serious matter leading, as it does, to greater absenteeism. It is obvious, of course, that analyzing the U.S. unilateral and the COCOM controls and deciding whether and, if so, what changes should be made cannot be handled in a meeting or two. One of the major needs seems to be the establishment of an intimate relaxed, working relationship among the industry and Government members of the various committees. Only after this type of relationship is developed can the issues be examined and the slow process begun of deciding which controls should be left intact, which changed, which discontinued and which added. Primarily for this reason, it is still too early to judge the effectiveness of the Technical Advisory Committees. We believe that these committees are essential if a realistic set of controls is to be adopted and maintained. Accordingly, we urge that Section 5(c), the Technical Advisory portion of the Export Administration Act of 1969, as amended, be extended and that both sides, Government and business, be urged to participate in the Technical Advisory Committees to the maximum extent.

TIME DELAYS

One important area that neither the Export Administration Act of 1969 nor HR 13840 covers is the amount of time required to prepare formal license applications and, more importantly, the delays encountered in obtaining licensing decisions. These delays continue to place U.S. concerns exporting to the Communist countries at a disadvantage.

Time delays, serious in any transaction, are especially serious in dealing with the USSR and the East European markets where U.S. suppliers already face several built-in disadvantages such as: lack of familiarity with the market; remoteness, and thus, the fact that long shipping intervals are required; the relative lack of hard currency; the unwillingness or inability of the U.S. firms to accept merchandise from the USSR and Eastern Europe in payment for U.S. goods, etc.

Licencing of orders

Over the past 2¾ years, the Hewlett-Packard Company has submitted 402 U.S. export/reexport license applications covering COCOM controlled commodities destined to the USSR or the Socialist countries of Eastern Europe. It is worthwhile to review our experience with these applications to illustrate the time delays faced by the Hewlett-Packard Company and by other U.S. exporters of high technology electronic products.

Although it is difficult to assign an average figure, as a rough estimate, it takes two to three weeks to get a Soviet or an East European purchaser to supply application information and to complete an end-use statement. It also takes a day or two to prepare and file a formal U.E. export license application or reexportation request.

The time required, however, to process a license request can be examined more objectively. As of March 31, 1974, 44 of the 402 applications which the Hewlett-Packard Company had submitted since July 1, 1971 were still pending. Some of these pending applications were submitted late in March and, thus, it is too early to expect a licensing decision, while others have been pending for longer periods of time, the longest some 22 months. 286 license applications on which decisions have been received over the past 2¾ years cover the vast bulk of our exports of COCOM controlled products to the European Communist countries. These applications include instruments classified under U.S. CCL categories 7295, 7299 and 8619 and computer systems and peripherals under 714. The remaining 100 or so applications for which decisions have been received are of relatively small

dollar value, and concern mainly various semiconductor devices, components and repair parts.

I would like now to refer to the exhibits attached to this letter:

1. Exhibit I groups the 286 major license applications for COCOM controlled products into thirty-day intervals and thus reflects the amount of time required by the U.S. Government and, when appropriate, the COCOM representatives in Paris to reach a licensing decision. The time interval for each application was measured from the date on which the application was airmailed to the Commerce Department to the date on which the Commerce Department issued its approval or denial. On those occasions when a license application was returned without action for additional information, the amount of time the application remained in our hands pending receipt of the information and resubmittal has been deducted.

2. Exhibit II presents the same date cumulatively on a percentage basis. An examination shows that two-thirds of the cases were processed within a period of slightly more than three months and over 80% was handled within five months. The remaining 20% dragged on, and on, and on. The inability to reach a decision in these cases has discouraged our sales force, caused customer unhappiness, and sometimes even resulted in cancellations.

3. Exhibit III groups the same 286 cases into the various calendar quarters in which licensing decisions were reached. It is instructive to note the increasing amount of time it has taken to process the applications—from an average of 76 days in the third quarter of 1971 to 134 days in the first quarter of 1974. This increase, due I'm sure to some extent to a greater number of more complex applications, is best depicted by the dashed regression line fitted to the individual case data. The line shows that the average processing time, 80 days in the third quarter of 1971, had increased almost 50% to 117 days in the first quarter of 1974.

4. At the same time the number of license applications we have submitted has sharply increased. As might be expected, this is fully consistent with the increase of our business in the USSR and the Socialist countries of Eastern Europe. Exhibit IV shows this increase by grouping, on the basis of the calendar quarter in which submitted, the 402 license applications for COCOM controlled products. The amount of this increase is best depicted by the dashed trend line fitted by the linear regression method. The trend line shows a 150% increase in submittals from about 20–22 per quarter at the end of 1971 to some 50 per quarter at present. We fully anticipate that, barring any radical reduction in the COCOM controls, this licensing load will continue to increase in the years that lie ahead as our trade with the USSR and the Socialist countries of Eastern Europe increases and as we become more deeply involved in supplying our products to People's Republic of China. I should emphasize at this point that PRC applications have been excluded from all exhibits.

The licensing delays Hewlett-Packard faces are faced by other U.S. manufacturers and exporters of high technology equipment who, with us, believe that these delays place them at a competitive disadvantage.

I believe the reasons for these delays can be summarized under three major categories.

First, it must be recognized that making decisions which might affect the national security of the United States is not easy and must not be taken lightly. Still, as David Packard, Chairman of the Board of the Hewlett-Packard Company and former Deputy Secretary of Defense, stated last year before the House Ways and Means Committee during the hearings on HR 6767, the Trade Reform Act of 1973, a reexamination of the entire system of controls is in order. Mr. Packard said:

"I want to emphasize the need to be more realistic with respect to the export controls placed on high-technology products. It is essential, of course, that military products continue to be rigidly controlled. However, many of the restrictions placed on the sale of high-technology products designed primarily for commercial use are of doubtful utility. Many of these products are standard catalog items which have been restricted on the basis that they might provide some possible military benefits. When, as is usually the case, these products are freely bought and sold throughout the non-communist world, they can and usually do end up in the Communist countries. The net effect, of course, is that controls over these products do not really achieve

their purpose. There is no doubt in my mind that our national security needs must come first, but once these needs have been met, I believe that less restrictive policies in regard to commercially available, non-military products would increase communications, promote trade, lessen tension, and thus, contribute in a broad way to our national security."

The task of analyzing the existing controls and suggesting future changes is one to which the Technical Advisory Committees are addressing themselves and this is why we believe the Subcommittee should, as I indicated earlier, make suitable changes in the legislation to strengthen their efforts.

Second, in recent years there seems to have been a downgrading in the importance of export control activities in terms of attention, budget and manpower. Instead, efforts seem to have become focused on more glamourous activities such as negotiating protocols with the various Communist countries to increase trade and the establishment of a whole host of promotional and ancillary activities in the Bureau of East-West Trade to encourage U.S. businessmen to market their products in the USSR, the Socialist countries of Eastern Europe and the People's Republic of China. Now these are fine and useful activities but it must be emphasized that signing protocols, encouraging demand and stimulating U.S. businessmen will be of little value if, ultimately, a good portion of the results of this increased effort has to funnel through a time consuming, archaic licensing system.

Third, perhaps as a reflection of the apparent shift of interest from export control to trade expansion and promotional activities, the number of qualified licensing officers, supporting clerks, secretaries, etc. in the Commerce Department has diminished and, despite increased licensing volumes, the paperwork system used to process applications, has remained essentially unchanged. The Commerce Department should be encouraged to hire and retain an adequate number of technically qualified license experts and supporting personnel. The paperwork system used to process license applications should also be updated and streamlined. This includes the introduction of a sorely needed computerized data bank so that facts about previous licensing actions, historical precedence, etc. can be easily and expeditiously retrieved. At present such retrievals are carried out manually, frequently by highly skilled licensing officials whose talents would be much better used to analyze applications and speed them through the licensing process.

We believe the Congress should take a stand on the matter of the time it takes to process a license application. This could be accomplished rather easily by including an additional lettered sub-section under Section 4 of the Export Administration Act of 1969, as amended. This sub-section would be to the effect that:

"(1) The Secretary of Commerce, in conjunction with other U.S. Government agencies to whom export control authority or responsibility has been delegated, shall, to the maximum extent possible consistent with the other provisions of this Act, use all practical means available to complete the processing of export license applications within a period of 90 days after receipt.

If, prior to the expiration of the 90 day period, it appears that an additional amount of time is required to process an application, the U.S. applicant shall be informed in accordance with Section 9(2) of the circumstances causing the delay and given an estimate of when a decision is anticipated.

(2) Not later than nine months after the date of enactment of this amendment, the Secretary of Commerce shall submit to the President and the Congress a special report of actions taken under paragraph (1) to expedite the processing of license applications."

We believe this new sub-section and the Congressional intent behind it would encourage the Secretary of Commerce to speed up the licensing process by: 1) seeking an increased delegation of licensing procedures, and 3) obtaining an puterizing and otherwise updating the licensing procedures, and 3) obtaining an adequate number of qualified licensing and supporting personnel. We also believe that under this new sub-section the Secretary of Commerce and the responsible Congressional Committees would be inclined to see that more adequate funds are provided, either through appropriation or direction, for the administration of export controls.

We urge the Committee to add this or a similar amendment to the Export Administration Act of 1969, as amended and, thus, increase the competitive ability of U.S. firms to sell peaceful U.S. goods to the USSR, the Socialist countries of Eastern Europe and the People's Republic of China.

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Licensing of Display/Demonstration Equipment

Lengthy delays also occur when U.S. goods are licensed for display or demonstration in Communist countries. As the Secretary of Commerce pointed out in his special report of May 29, 1973, "The U.S. has long followed the practice of not approving a license for temporary export of a COCOM-list commodity to a Communist country for display and demonstration . . . when . . . there was substantial likelihood that it would not, for national security reasons, approve a license for subsequent sale and permanent export of the same commodity to the Communist country . . .".

The reasons advanced to support this more restrictive policy include: 1) the possibility that a displayed commodity might become "lost"—presumably the U.S. exporter might not take appropriate care to see the item was returned to the West or the Communist country might refuse to reexport it, 2) display in a Communist country might inadvertently disclose important technology, 3) U.S. exporters, for prestige purposes, might tend to display/demonstrate their most sophisticated, top-of-the-line products, thus stimulating demand for items which can be neither licensed nor supplied, and 4) U.S. exporters would pressure the U.S. Government to license the sale of the highly sophisticated products they had been permitted to display/demonstrate.

Although each of these reasons have some basis in fact, I believe the potential dangers are exaggerated. For example, it is hardly conceivable that a reputable U.S. exporter of the type the U.S. Government would be willing to permit to display/demonstrate in a Communist country would perform so carelessly as run the risk of incurring stiff penalties which could be imposed under the Export Administration Act. Similarly I do not believe that a Communist country would jeopardize its entire future trade with the United States by refusing to reexport temporarily imported commodities. In a like manner, the argument about the possible disclosure of technology is weak. A Communist engineer or official can easily obtain a visa and go to any number of demonstrations or exhibitions in a variety of nearby Western countries and even, in many cases, the United States.

It is true that a number of U.S. exporters might wish to display/demonstrate their most sophisticated, top-of-the-line products despite the fact there would be no chance of recovering the not inconsequential costs of transportation, exhibition, etc. if the items cannot be approved for sale. Still, I believe the risk would be quite small since Communist officials are quite knowledgeable about export controls and moreover, as I pointed out earlier, they can easily travel to a nearby Western country and see these top-of-the-line products. It's also true that U.S. exporters are likely to pressure the U.S. Government to approve products which they had displayed. But this is nothing new. Pressure is already exerted and I find it difficult to see how easing of the present restrictive U.S. policy concerning exhibition/demonstration in the Communist areas would increase it to any significant degree.

All of these reasons and arguments aside, the important point is that a number of other COCOM countries, each of whom manufactures products of great technical sophistication, follow a more liberal licensing policy. This puts U.S. exporters at a competitive disadvantage. Again, in the words of the Secretary of Commerce, ". . . at least . . . four (of the COCOM countries) . . . Japan, France, Italy, and the United Kingdom . . . follow a more liberal policy, freely licensing such temporary exports . . . regardless of whether a subsequent sale and permanent export of the same article is or is not likely to win the requisite unanimous approval of COCOM.

The more restrictive U.S. licensing policies pose a considerable handicap. U.S. exporters wishing to exhibit or demonstrate COCOM-controlled products in the Communist countries must make their plans and file their license applications considerably in advance. It is difficult for sales people to do this and still be responsive to the needs of the market. Even then, U.S. exporters have no real idea of whether or not permission will be granted and the exhibition/demonstration can proceed as planned. When denials occur, frequently perilously close to the exhibition/demonstration date, a frantic scramble ensues for acceptable substitutes. If these cannot be obtained the exhibit/demonstration is either cancelled or limps along as well as possible without the denied commodity. As can be imagined, the indecision, the inability to show, and the possibility of cancellation has a strong negative effect of would-be purchasers and would-be U.S. exporters.

The net effect of these delays is to provide a considerable advantage to those competitors from COCOM countries following more liberal practices. In the words of the Secretary of Commerce, it seems "that American firms should be given an opportunity at least equal to their competitors in those COCOM countries that permit temporary display on a relatively free basis . . . thus, American firms could display more sophisticated products, thereby creating a better competitive position and enhancing sales of their other products".

The Hewlett-Packard Company agrees and urges modification of the restrictive U.S. policy to permit much more rapid approval for temporary export for exhibition/demonstration purposes of all commercial products except, perhaps, a small number of specifically designated strategic commodities for which a real danger exists that important technology might be disclosed, extracted and/or copied. These designated comodities would receive a full licensing review before exhibition/demonstration would be permitted.

CONCLUSION

In the years that lie ahead Hewlett-Packard foresees a continued growth in the sale of peaceful goods to the USSR, the Socialist countries of Eastern Europe and the People's Republic of China. The success of our activities, however, is largely dependent upon a continuing interest by the U.S. Government in East-West trade and by a relaxation of the major impediments to that trade. By this we are referring to reductions in obsolete or obsolescent COCOM controls, more rapid processing of license applications, the extension of medium term credits and, finally, the judicious extension of Most-Favored-Nation tariff treatment.

For these reasons and the continuing need to maintain controls over strategic goods—goods which would significantly assist an enemy or a potential enemy in his ability to produce or use weapons of war—we support extension of the Export Administration Act of 1969 to 1977 as provided in HR 13840.

We also believe that the subcommittee should adopt additional measures to assist U.S. firms in their efforts in the Communist countries. These measures include:

(1) Strengthening the role of the Technical Advisory Committees.

(2) Establishing a high-level, interagency committee within the U.S. Government which would be able to provide prompt and comprehensive advice to U.S. firms who are or are considering executing agreements with the Communist countries, and

(3) Inserting appropriate language in the Export Control Act of 1969 which would expedite the licensing process, thus improving the competitive ability of U.S. exporters.

Mr. Chairman, I hope that the views expressed in this rather lengthy letter prove useful to you and the members of the Subcommittee in your review of the Export Administration Act of 1969, as amended. If there are some points which require further explanation or information, please let me know.

Sincerely,

T. A. CHRISTIANSEN,
Manager, International Trade Relations.

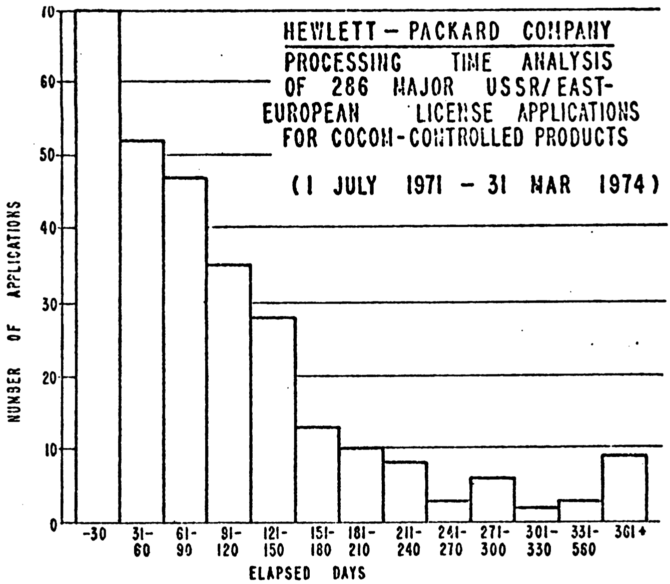
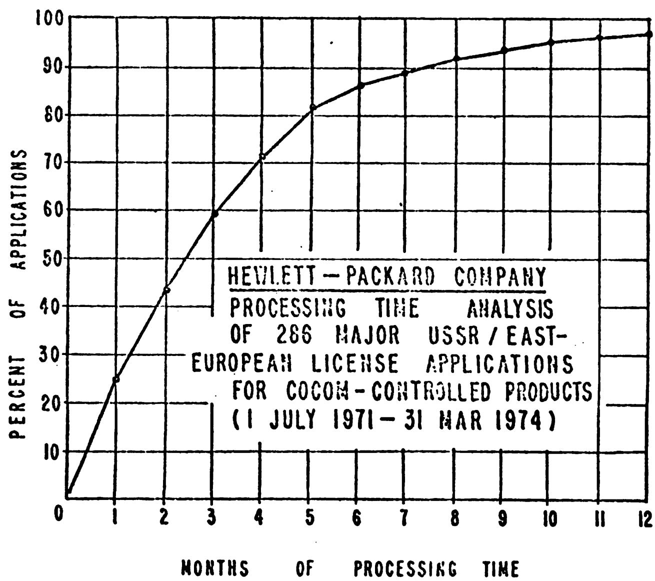


EXHIBIT I



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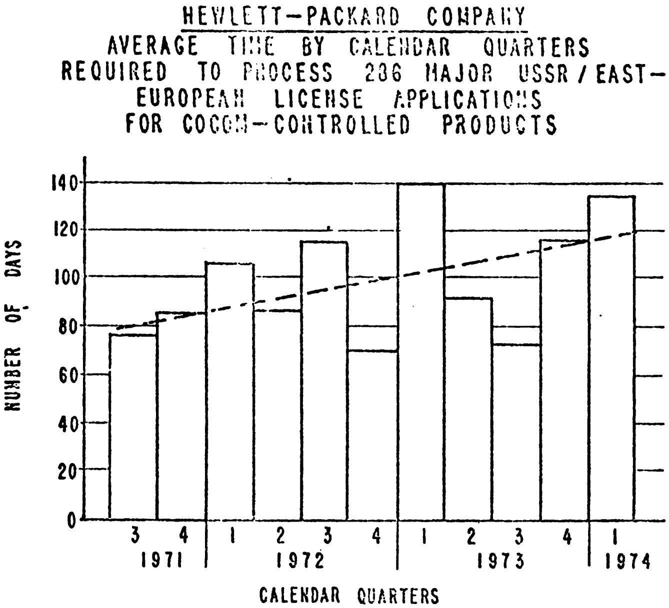

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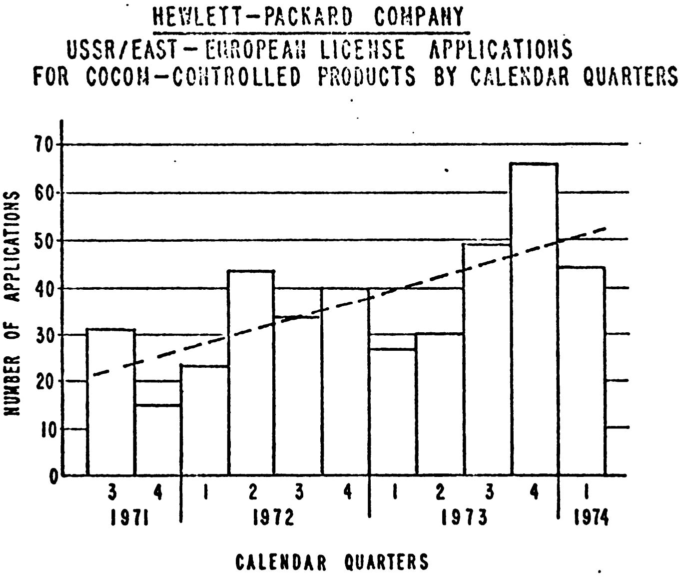

EXHIBIT IV

STATEMENT OF THE AMERICAN BAKERS ASSOCIATION ON EXTENSION OF THE EXPORT ADMINISTRATION ACT OF 1969 AND PROPOSED AMENDMENTS

My name is Chuck Webb. I am Chairman of the Export Control Task Force of the National Affairs Committee of the American Bakers Association and President of Purity Baking Company, Decatur, Illinois. I am submitting this statement on behalf of the American Bakers Association.

The ABA is a non-profit trade association representing the nation's wholesale baking industry. It is composed of about 225 firms operating over one thousand plants, which annually produce over 70 percent of the breadstuffs sold in the U.S. The baking industry is the largest domestic user of wheat flour, requiring 400 million bushels of wheat annually.

We welcome this opportunity to support extension of the Export Administration Act of 1969 and to propose amendments which we believe would strengthen the Act.

We believe there is a need for export controls on agricultural commodities such as wheat to prevent a raid on our food supply by foreign governments and to maintain reasonable stability in consumer prices. These controls are necessary to assure an adequate domestic supply of wheat and other commodities at reasonable prices so that American consumers will not again suffer rampant food price inflation—20 percent in the past year alone.

As we look ahead we can foresee a potential need for the imposition of export controls within the next 18 months, to prevent another disastrous Soviet wheat deal. Recent reports from the Soviet Union indicate that Spring grain planting has been substantially delayed due to bad weather, thereby raising the prospect of reduced crops later this year. At the same time, the USDA has just cut back next year's wheat acreage allotment by 1.7 million acres from the 1974 level. Thus, the Russians may come to the U.S. seeking additional grain supplies before our own smaller crop is harvested next year. The price spiral of 1972 and 1973 teaches us we must be prepared to impose export controls promptly, to assure an adequate domestic grain supply, and guard against still another round of food price inflation.

We believe President Nixon stated the proper policy for our country last June 13, when he said, "In allocating the products of America's farms between markets abroad and those in the United States, we must put the American consumer first." Just a few weeks ago in Houston he expanded on this saying. ". . . we want to see to it that in our export programs we do not create shortages here which force prices that the housewife pays to exorbitant heights, because our first concern is what the American housewife pays for things, and we are not going to be exporting so much that we have shortages here at home to feed our cattle and to do the other things that are necessary to keep prices on a reasonable basis."

But this is exactly what has happened to food prices. In 1972, Americans paid $125 billion for food. In 1973, our total food bill jumped $14 billion to $139 billion. Gary L. Seevers, the agricultural expert on the Council of Economic Advisors, has estimated that "perhaps half of the acceleration in food prices could be attributed to factors associated with the worldwide boom in export demand." Thus, the export binge has cost the American consumer $7 billion from his frayed pocket in 1973.

This dramatically illustrates the weakness of the current law—its application is completely discretionary with the Secretary of Agriculture. He has not accepted the responsibility to assure an adequate supply of basic agricultural commodities at reasonable prices. Secretary Butz has failed to halt skyrocketing food prices on the ground that American consumers must compete with the buying agencies of foreign governments for the commodities they want.

Our economy can no longer stand such diminished notions of national responsibility. Arthur Okun, former Chairman of the Council of Economic Advisors has said that "The one constructive measure that could provide insurance against continued food price inflation would be the setting of export ceilings for key farm products. . . ." We agree, and accordingly support a number of the provisions of H.R. 10844 as the best means to achieve this goal. We urge you to incorporate them as amendments to H.R. 13940.

Section 201(3) would define "reasonable carryover" as the quantity of any commodity equal to at least 40 percent of total domestic usage of the commodity in the prior year. We urge the deletion of this provision as being too restrictive. as at times the amount would be too high—at other times it would be too low. We believe that a reasonable wheat carryover would be 250–300 million bushels. This would assure reasonable price stability. But to provide governmental flexibility and accuracy, the Secretary should be required to re-assess the probable carryover every 90 days, after consultation with an advisory committee composed of exporters, farmers, processors and consumers.

Section 202 of H.R. 10844 would require the Secretary of Agriculture to estimate the crop of each agricultural commodity at the beginning of the crop year and determine the amounts necessary for domestic consumption, including a reasonable carryover. The excess would be available for export to foreign countries. Under Section 203, the Secretary of Commerce would then allocate the exportable supply among foreign countries on a quota system, based upon past exports and such other criteria as he determines are necessary to produce a fair and equitable quota. The Secretary of Commerce is authorized to set aside up to 10 percent of the export amount as a reserve to be used for humanitarian purposes.

Section 204 then directs the Secretary of Commerce to set up a system for the sale of export licenses through an auction process. Licenses will be sold to the highest responsible bidders, except in the case of exports to developing countries with balance-of-payments problems, the licenses will be issued without fee. The Secretary is authorized to lift this licensing system for any agricultural commodity which he determines is produced in sufficient quantities to meet both U.S. demand and normal world requirements.

The procedures of H.R. 10844 will help assure that the Secretary of Agriculture meets his responsibility to make reasonable estimates of demand and supply. Contrary to Section 207(b), we believe that licensing should be automatic whenever the Secretary estimates that export demand exceeds supply. Accordingly, we urge the deletion of this provision, which makes export control dependent on the consent of the Secretary of Agriculture.

For the past 18 months, the Secretary has failed to act to achieve minimal price stability and assure an adequate domestic supply of certain agricultural commodities. Therefore, we believe the approach of H.R. 10844 provides an excellent framework to protect domestic supplies and help stabilize prices. It will also provide a means of differentiating between U.S. and world prices in a tight supply situation.

In contrast, the Administration bill, H.R. 13840 will not achieve any of these objectives. It does nothing to assure reasonable supplies of agricultural commodities at fair prices for domestic consumers. The Secretary of Agriculture has demonstrated he will not protect the American consumer against runaway food price inflation. Congress should not extend the Export Act without limiting his authority to give preference to foreign governments over our own people.

Careful regulation of agricultural export is essential for a healthy national economy. This will assure that the private sector will be able to provide adequate supplies of agricultural products to the American people at reasonable prices.

The amendments we have proposed will not unnecessarily interfere with vital commodity exports. We recognize their importance to our balance of payments. In fact, by spacing out exports over the entire crop year, licensing could actually increase our export earnings. For example, last year most export sales were made early, at lower prices than those prevailing later. But most importantly, the extension of the Export Administration Act, strengthened by amendments from H.R. 10844 will give proper priority to the needs of American citizens.

NATIONAL GRAIN TRADE COUNCIL,
Washington, D.C., May 2, 1974.

Re: Pending Amendments to the "Export Administration Act" and the "Equal Export Opportunity Act"

HON. THOMAS L. ASHLEY,
Chairman, Subcommittee on International Trade, House Committee on Banking and Currency, Rayburn House Office Building, Washington, D.C.

DEAR SIR: The National Grain Trade Council requests that this letter, containing our views on the above entitled amendments, be incorporated in the

transcript and record of hearings now being held on the Export Administration Act of 1969 and the Equal Export Opportunity Act of 1972.

The National Grain Trade Council is a voluntary unincorporated association of grain exchanges and national grain industry organizations. A list of the Council's member organizations in enclosed.

As a result of our study of the pending amendments and in view of the reasons hereinafter set forth, the Council recommends:

1. That none of the pending amendments be approved; and
2. That the termination date of the Export Administration Act and the Equal Export Opportunity Act be moved forward at least one year to June 30, 1975.

The House has passed and there is pending at the Senate Committee on Finance, the "Trade Reform Act of 1973". There is hope, at the moment, substantial hope, that under that Bill as finally enacted, present existing barriers to world trade in U.S. produced agricultural products may, through negotiations, be reduced and eliminated. In our judgment, if any of the pending amendments are approved, our negotiators will be negotiating from a stance of weakness rather than of strength.

Each of the pending amendments is to a degree protectionist in nature. None is directed to expanding trade. All appear to be based on the premise that in world trade in grain and oilseeds the United States should appear as something less than a reliable supplier and become again a residual supplier. Because they all appear to have objectives other than those of the Trade Reform Act of 1973, none should be considered until after bargaining and negotiations under the Trade Reform Act have ended.

The United Nations, on the recommendation of Secretary of State Kissinger, has called a world food conference to be held in Rome in November 1974. That recommendation was made at the U.N. General Assembly on September 29, 1973. What may be accomplished at the Conference was described by Mr. Kissinger in an April 15, 1974 speech at the Sixth Special Session of the U.N. General Assembly.

In our judgment, after again reviewing these two speeches of the Secretary of State, listing what appears to be United States commitments to help solve the World food problem, and relating those commitments to the pending amendments, we conclude that to adopt any of these amendments would tend to limit, and go a long way toward limiting the areas of cooperation which the Secretary of State has promised will be vailable to United States representatives at the United Nations November Conference.

An additional reason for moving forward to at least June 30, 1975, the termination date of the Export Administration Act and the Equal Export Opportunity Act is the fact that pending before appropriate Senate and House Committees, and in the Senate already well along in the hearing process, are proposals to establish reserves of grains and oilseeds. In our judgment, it would be unwise to adopt any export licensing or control procedures relying on any of the triggering methods contained in the pending amendments and based on the carryover outlook.

For all of the foregoing reasons—the inconsistencies of the pending amendments with The Trade Reform Act of 1973; the inconsistencies of these amendments with the area of cooperation held out for the United States by her Secretary of State as available at the U.N. World Food Conference scheduled for November, and obvious conflicts between the pending amendments and pending reserve proposals—the National Grain Trade Council recommends:

1. That none of the pending amendments be approved; and
2. That the termination date of the Export Administration Act and the Equal Export Opportunity Act be moved forward at least one year to June 30, 1975.

Respectfully submitted,

WILLIAM F. BROOKS,
President and General Counsel.

Member Organizations

Amarillo Grain Exchange.
Baltimore Chamber of Commerce.
Barley & Malt Institute.
Commercial Exchange of Philadelphia.
Denver Grain Exchange Association.
Des Moines Grain Exchange.
Destrehan Board of Trade.
Enid Board of Trade.
Fort Worth Grain Exchange.
Houston Merchants Exchange.
Indianapolis Board of Trade, Inc.
Lincoln Grain Exchange.
Los Angeles Grain Exchange.
Merchants Exchange of St. Louis.
Milwaukee Grain Exchange.
Minneapolis Grain Exchange.
New Orleans Board of Trade.
North American Export Grain Association.
Northern California Grain Exchange.
Omaha Grain Exchange.
Peoria Board of Trade, Inc.
Salina Board of Trade, Inc.
Sioux City Grain Exchange.
Terminal Elevator Grain Merchants Association.
Toledo Board of Trade.
Wichita Board of Trade.

Statement of Jerry Rees, Executive Vice President, National Association of Wheat Growers, on H.R. 13840

Chairman Ashley and members of the committee I appreciate this opportunity to present a statement on Export Controls.

My name is Jerry Rees, Executive Vice President of The National Association of Wheat Growers, Suite 1030, 1030—15th Street, NW., Washington, D.C. We represent wheat producers of the Great Plains and the Pacific Northwest. Member states are: Colorado, Idaho, Kansas, Montana, Nebraska, Oklahoma, Oregon, South Dakota, Texas, Washington, and Wyoming.

Despite adverse publicity wheat producers take great pride in having met the food needs of the world through two unusual marketing years. While some claimed we would have shortages this marketing year, we have not and I believe it is now generally agreed we will not have a shortage of wheat. Cries of wheat shortages and calling for export controls had strong psychological effects on the market, running up prices of wheat far above real market demand. Later realization in the market place that we were not going to have a shortage broke the market and wheat prices have dropped 30–40%. When wheat prices were moving-up, we heard warnings of dollar-a-loaf bread. Bread did not reach a dollar-a-loaf but while wheat prices moved up bread prices moved up. Today with wheat prices down and still falling—bread prices are still moving up.

The American baking industry is one of our best customers but we have others. Several countries around the world depend on us for a major percentage of their wheat needs on a continuous basis. Other countries requirements vary in relation to their own production. If they have good grain crops their needs are down but if they have poor crops their needs are up, sometimes substantially. Food must be available if widespread famine is to be averted. They must have reliable supplies if they are to be dependable buyers. The U.S. is blessed with production potential far beyond our need. We have land highly suitable for wheat production, improved wheat varieties and some of the world's most efficient producers (a U.S. farmer now produces for himself and 52 others). Probably as important as land and other production inputs we have had the opportunity in the past to respond to the incentive of price.

Last fall, winter wheat producers seeded 51 million acres of wheat, 18 percent or 7.9 million acres more than last year. Durum wheat producers are expected to seed 4.2 million acres, a 39 percent increase; and, spring wheat producers 15.4 million acres up 20%. Based on these projections by USDA we should have 70.7 million acres of wheat. This would provide the largest acreage since 1953, 20 percent above last year and 29 percent above 1972.

In addition to our own greatly expanded wheat production, let's not forget that many other countries around the world are working hard to increase their grain production. Our major competitors—Canada and Australia—have pulled out all the stops, are hitting new wheat production records and rapidly building up stocks. Importing countries are striving for self-sufficiency and for diversification of supplies to reduce their dependency on a few countries to meet their needs and the threat of export controls. Not only is this true for wheat production but for other grains, which are substitutable in varying degrees.

Production from American wheat farms this fall should be in excess of 2 billion bushels. Harvest of this fall's crop for next marketing year which officially starts July 1, 1974 and runs through June 30, 1975 actually has already gotten underway in Texas and will move swiftly north during May and June. By July 1, 1974 when the new crop year officially begins we will have approximately 500 million bushels of wheat on hand by the end of harvest we will have an accumulative crop and carryover of 2.3 billion bushels.

Wheat for our own domestic food consumption over the years has been fairly inelastic at 520–530 million bushels. This leaves U.S. wheat growers very dependent on a expanding export market, not the domestic market, for their increased production. With the increased production, prices are likely to moderate. Producer income will be more dependent on export volume and orderly marketing. Restricting access to markets would further affect price, the incentive to produce, reduce balance of payment opportunity and depending on price levels, trigger government target price payments provided in the Agriculture and Consumer Protection Act of 1973.

The Export Control Act of 1969 authorizes export controls (A) to the extent necessary to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of abnormal foreign demand, (B) to the extent necessary to significantly further the foreign policy of the United States and to fulfill its international responsibilities, and (C) to the extent necessary to exercise the necessary vigilance over exports from the standpoint of their significance to the national security of the United States.

These provisions providing authority for export controls were used in the case of soybeans and would have been used in the case of wheat had the administration felt it was necessary to protect the American consumer from shortages.

We feel that the expiring act provides ample authority for export controls and that no further authority should be granted. Therefore, we respectfully request a simple extension of the Export Administration Act of 1969 without change.

H.R. 13840—The administration bill provides for retaliation authority against nations or groups of nations denying the U.S. access to needed commodities.

We are opposed to the use of privately owned commodities for the purpose of retaliation and to the open end discretionary authority as contained in the bill. The bill also provides for express authority for the President to use an export fee or an auction system in regulating exports of commodities in short supply.

We are opposed to this provision as a direct tax on producers of commodities affected. The fees would be charged directly back to the producer through lower prices and rather than prevent a windfall profit by exporters it would deny income to the producer of a commodity in a competitive world market and in addition it could in effect create a "market of licenses" if they are allowed to be sold or traded.

We are hopeful that this committee will take note of the export licensing fee and bidding system and conclude in your report a prohibition against the use of the system.

RECOMMENDATIONS

(1) An extension of the Export Administration Act of 1969 without changes.

(2) A prohibition against the use of an export fee and bidding system.

We have just concluded an important period in U.S. history when the abundance of American Agriculture was looked to by the countries of the world to maintain their food requirements and in many lands to prevent starvation.

Let me assure you wheat production is being expanded dramatically in the U.S. through the incentive of potential demand and the outlook for a reasonable return. Export controls, licenses, fees, and allocations would adversely affect the productive potential of the United States, jeopardize needed export markets, and in the long run reduce supplies of available food.

Legislation so drastically affecting our total marketing system and our reliability as an exporter of agricultural products should not be passed in haste or at a time when fears more than reality guide our decisions.

The best interest of American agriculture, consumers and the baking industry and the United States would be jeopardized by unnecessary application of export controls.

Thank you for this opportunity to express our views on behalf of wheat producers before this committee. If members of the Committee have any questions on our statement, I would be glad to respond.

AMERICAN FARM BUREAU FEDERATION,
Washington, D.C. May 6, 1974.

Hon. THOMAS L. ASHLEY,
Chairman, International Trade Subcommittee, Committee on Banking and Currency, House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: We understand that your Subcommittee concluded hearings on May 2 on a number of bills concerning export controls.

On January 17, 1974, the official voting delegates of the member State Farm Bureaus adopted the following policy:

> "We encourage action at both domestic and international levels to insure farmers the right to offer their produce for sale on world markets. We oppose any proposal to limit or control exports of U.S. agricultural commodities."

We opposed agricultural export controls for the following reasons:

(1) Farmers and nonfarmers alike have benefited from an upsurge in agricultural exports toward an anticipated all-time high of over $19 billion during the current fiscal year. Increased output—made possible by export sales—means lower average production costs. This leads to higher incomes for farmers and lower food costs for consumers. A high level of agricultural exports has a favorable effect not only on the net incomes of the producers of the commodity exported, but also on the incomes of producers of other farm commodities and the incomes of workers employed in transportation and other export-related industries.

The dollars earned by commercial exports are critically important to our country's international balance of payments. Further increases in agricultural exports will be needed in the years ahead to pay for expanding imports of petroleum and other essential materials.

(2) Export controls, like price ceilings, deal with the *symptoms* of inflation and divert attention from the need for a direct attack on our economic problems through effective action to reduce excessive government spending.

(3) Export controls involve the compulsory allocation of supplies by government. They cannot do this job as well as market prices. Such controls also are an instrument for politicizing foreign trade policies. They can lead to the allocation of exports for diplomatic and strategic objectives which are not related to economic efficiency. Politicized trade policies make it impossible for our country and others to gain the full benefits inherent in mutually advantageous trade conducted with a minimum of restrictions.

(4) The imposition of export controls on certain agricultural commodities in 1973 was a disastrous mistake. The long-run result will be a loss of some hard-won markets; many foreign buyers confronted by broken sales contracts have lost faith in the dependability of the U.S. as a source of supplies. As a result, the effectiveness of U.S. representatives in the current international trade negotiations has been reduced and it will be harder to persuade foreign countries to lower their barriers to imports of our commodities.

We also would like to focus your attention on fertilizers, a nonagricultural commodity, but one of great concern to American farmers and ranchers. Government price controls were the primary cause of recent shortages of fertilizers. They encourage exports and reduced imports of fertilizer materials. Export con-

trols on fertilizers would be undesirable because they would lead to foreign retaliation against our agricultural exports and reduce our fertilizer imports.

We urge the House Committee on Banking and Currency to (1) delete all provisions of the Export Administration Act of 1969 that have been, or could be, used as authority for imposing export controls on agricultural commodities, and (2) reject all proposals to impose export controls on fertilizers.

We respectfully request that this letter be made a part of the record of the hearing.

Sincerely,

WILLIAM J. KUHFUSS,
President.

STATEMENT OF THE NATIONAL ASSOCIATION OF MANUFACTURERS

The National Association of Manufacturers, a voluntary, non-profit organization of over 12,000 companies, large and small, located in every state, welcomes this opportunity to comment on the proposed extension and amendment of the Export Administration Act and the Export-Import Bank Act. The Subcommittee is considering an interesting legislative combination, comprising as it goes an act to curb exports and an act to expand exports. As the representative of firms which account for nearly three-fourths of American manufactured goods and the employment of approximately 15 million persons, the NAM would ask that this Subcommittee fully support efforts to assure that American manufacturers can fairly compete in international commerce while maintaining adequate export control authority to effectively meet strategic or emergency domestic needs. An active and responsible American role in the global trading system requires the extension and improvement of both these legislative Acts. For the sake of clarity, we will comment further on H.R. 13840 and H.R. 13838, separately.

EXPORT ADMINISTRATION ACT: BACKGROUND

The Export Administration Act of 1969 will expire on June 30, 1974, unless extended. In this Act, the President is authorized to curtail or prohibit exports from the United States of any articles, materials or supplies on national security grounds, for foreign policy reasons, or because of short domestic supply. Under the current authority of the Export Administration Act, export controls have been instituted for all three of these reasons, being placed on sensitive products, on goods traded with unfriendly countries, and more recently on commodities in which there was a domestic (and in many cases a worldwide) shortage.

Several bills have been introduced during this Congressional session to extend and amend the Export Administration Act. The principle proposals in this field are H.R. 13840 and S. 3282. Briefly, this proposed legislation would provide extension of the Export Administration Act with the following major amendments:

(1) Authorizing retaliation against nations unreasonably restricting U.S. access to their supply of a particuar commodity;

(2) International cooperation with major suppliers and consumers, whenever feasible, to deal with world shortages of particular commodities;

(3) Presidential regulation of export controls by any appropriate means including, but not limited to, the imposition of an export fee or the auction of export licenses; and

(4) Prompt reporting of details of transactions with Communist countries involving certain U.S.-origin technical data.

COMMENT

The United States is a great trading community within itself. Products of farms, factories, mines and wells are exchanged within and between the fifty states in the annual amount of hundreds of billions of dollars. For many years U.S. foreign trade was regarded as a relatively insignificant portion of the American economy since it represented a relatively small portion of gross national product. The growing American population, with its ever-higher standard of living, has increased per capita consumption in category after category of commodities from beef to energy. We have begun to see the limits of what was once thought were American limitless natural resources. Americans have looked

abroad more and more for certain types of natural resources and industrial supplies. As a consequence, we have come to realize that this country's economic welfare is becoming increasingly interrelated with access to foreign supplies of materials and on our ability to generate the high level of exports needed to help pay for the imports of materials that this country needs. Toward this important objective, U.S. export expansion programs must be continually sharpened and measured against the foreign competition.

In the earliest years of this Republic, as it first entered the ranks of world trading nations, Americans looked with hope and favor on the ultimate development of a large trade surplus. Throughout most of American history, national trade policy has supported the expansion of U.S. exports. At first, American farmers wanted to export their products. Later, U.S. manufacturers, as they became stronger and internationally competitive, joined in these aspirations. Currently, American labor is employed extensively in industries which owe much of their growth to widening markets abroad for U.S. goods. The government and many private sector organizations including the NAM, have also been hard at work in an effort to develop greater export awareness within U.S. industry.

The NAM recognizes the necessity of export controls instituted by the government on clear national security grounds; it commends the proper authorities for continual reviews which keep the list of commodities involved as limited as possible. However, NAM is concerned with the potential for greater government utilization of export controls for foreign policy reasons. This concern stems from a recognition that government intervention in the free market creates new distortions and should be avoided except where there are clearly over-riding national considerations, or where this nation cooperates and negotiates with other governments. In the third area of export controls on commodities in short domestic supply, we would urge the government to be cautious and circumspect in instituting trade restraints.

Our review of present and past domestic commodity shortages which underlie this aspect of the legislative proposals indicates that the solution to such shortages usually resides completey outside the area of export control. For example, the price control program which artificially suppressed domestic prices while prices abroad were rising led naturally to an increased proportion of U.S. commodities going to foreign markets. In this situation the solution does not lie in insulating the American domestic economy from foreign demand through the broad usage of controls. We recommend instead that the government refrain from controlling domestic prices and upsetting the free market system. We have strongly urged an immediate, across-the-board end to the present controls program and commend the Congress on its refusal to extend this program's authority beyond its April 30 expiration date. This type of control program proved itself ineffective, and indeed counterproductive, to its announced goals, while fostering numerous market distortions throughout the economy.

During worldwide inflation, when people in many nations express a preference in their own countries and internationally for commodities rather than currency, the nations with the most inflated economies tend to force up the prices of internationally traded goods. This situation is naturally aggravated if these same countries also have billions of dollars of one nation's currency on hand or at their demand due to accumulations resulting from past international transactions. Fighting international inflation is therefore also clearly a desirable approach to the problem of shortages, a fight which can begin right here at home with a tighter control over federal expenditures of questionable national benefit.

Governmental policies or lack of policies here and abroad in such basic economic fields as agriculture, raw materials access, trade promotion and restriction, and general fiscal and monetary policy, impact heavily upon the worldwide demand for U.S. raw materials, industrial supplies and manufactures. We feel, therefore, that the action and inactions of our own and other governments in the domestic international economic fields are frequently the root causes of U.S. commodity shortages. The proper way of solving problems which are so caused, before relying as a last resort on export controls, is by addressing ourselves to a rectification of these governmental policies through meaningful international cooperation to solve the underlying problems. It is for this reason that NAM has urged prompt passage of the Trade Reform Act. This Act could provide a forum for participating nations to work out rules governing international trade and payments and harmonization of related domestic and international economic policies. We have also recommended that the Act cleary provide the President with author-

ity to begin exploratory talks on a multilateral system to guarantee international access to scarce natural resources.

In view of the foregoing, we would oppose authorizing at this time more severe export authority which would invite retaliation and create ill-will throughout the world. At a minimum, proper legislation should provide for a review procedure prior to instituting export controls. Such a review could cover a series of alternative measures to alleviate a shortage or price problem. In cases where our trading partners' interests are involved, procedures should be set up where a domestic shortage problem could first be discussed with them, through multilateral and/or bilateral discussions. Export controls to alleviate shortages or runaway prices should be invoked only after other means of solution have been considered and after attempts have been made to give the problem prompt international attention. An early warning system might be initiated whereby danger signals heralding the coming of domestic shortages could be heeded and attended to in an effort to forestall their impact. For example, panic buyers from abroad or sudden massive entry into our markets by foreign buyers should certainly initiate a prompt reaction of our part, requiring either domestic or international action, or both. In any event, export controls to prevent or alleviate domestic shortages should not be invoked except as a last resort. Additionally, they should not be retained beyond the time necessary to get the supply demand situation under control.

In certain cases, export controls may be applied in the national interest and can at times prove a powerful deterrent to undesirable restrictions by foreign governments. We note, however, that the use of export controls as a retaliatory weapon may be deficient in at least two basic respects. First, unless such controlling action is part of a multilateral effort, it could prove an inadequate response, particularly against major commodity withholding action the U.S. has actually faced—the oil embargo. Second, the oil and other raw material problems go beyond the questions of access or level of supplies. These scarcities are also entwined with the question of monopoly pricing, a factor which is not clearly treated in proposed legislation. Continued access to oil and other raw material supplies only at prohibitively high monopoly prices would also constitute an unreasonable restraint of fair access. We therefore would recommend that such monopoly pricing should be included in the legislation as a possible basis for retaliation.

The NAM strongly concurs in the segment of H.R. 13840 calling for international cooperation, and we support the addition of the fourth criteria for export control action, with the reservation noted above. However, we do not feel that a proper case has been made for the other tw oproposed additions. With respect to the regulation of export curtailment by export fees or auction of export licenses, we feel it may be unfair to hit exporters twice, first by denying them access to world markets at world market prices and secondly, bring to a minimum the returns they can net on the reduced level of export transactions. We would recommend against such a system of extra fees. There are also Constitutional questions raised by such a fee structure which should not be lightly dismissed during its consideration.

In the second area of concern, the information-reporting requirement for transactions involving certain U.S.-origin technical data in trade with Communist countries (Section 3 of the proposed bill) is extremely loose and vague in defining covered areas. If any such restriction is enacted, it should clarify what kinds of information will be required. However, we do not believe the need for an expanded reporting requirement has been demonstrated, and that until this is achieved, the inhibition on business and the danger of forced disclosure of confidential business information during contract negotiations is sufficiently strong to argue against this proposal's adoption.

RECOMMENDATIONS

The National Association of Manufacturers:

(1) Recognizes the basic need for the Export Administration Act of 1969 and recommends its extension.

(2) Supports the principle of the judicious use of export restraint for strategic purposes.

(3) Urges that unilateral export controls be used only sparingly for foreign policy purposes, principally in retaliation for severe foreign economic and political provocation.

(4) Recommends that export controls based on abnormal foreign demand, scarcity and domestic inflation not be invoked except as a measure of last resort after other causes of these phenomena are examined and acted on and appropriate discussions are held with our trading partners.

(5) Supports with reservations the addition of a fourth criteria for imposing export controls to allow retaliatory action against countries unnecessarily restricting U.S. access to a needed commodity, including monopoly pricing of world-traded commodities.

(6) Opposes the specific authorization of export fees as an export control device.

(7) Opposes the inclusion of vague and expansive information requirements regarding confidential business information in trade with Communist countries.

(8) Repeats its recommendation for prompt passage of the Trade Reform Act as one important means of leading to discussions negotiating away the basic causes of shortages, thereby avoiding the need for export controls.

EXPORT-IMPORT BANK ACT: ISSUES

The Export-Import Bank has operated to facilitate exports between the United States and foreign countries for nearly thirty years. Recently Eximbank programs have reached new levels of efficiency and effectiveness, providing significant assistance to U.S. manufacturers trying to compete in an increasingly tight and competitive world marketplace. Over $10.5 billion of export sales were supported by Eximbank operations during the last fiscal year, translating into thousands of American jobs, increased tax revenues, and an assist for this nation's balance of trade. These considerations are even more important now recognizing the likelihood of renewed U.S. trade deficit due to the sharp price rises for imported oil and other vital materials.

Statutory operating authority for the Eximbank is due to expire on June 30, 1974. Pending legislative proposals in this field, H.R. 13838 and S. 1890, would extend this authority for four years and amend the Act to:

(1) Increase overall loan, guarantee and insurance limitations from $20 billion to $30 billion.

(2) Increase guarantees and insurance chargeable on a 25 percent fractional reserve basis from $10 billion to $20 billion.

(3) Exclude bank borrowings from Eximbank from the aggregate borrowing limit under the National Bank Act.

(4) Clarify present statutory langauge to avoid possible ambiguities and contradictions.

Other issues not specifically covered in these bills, but which have arisen in deliberations on the proposed amendments, concern Eximbank's role in developing trade relations with nonmarket economies and the relationship between the Bank's lending interest rate and domestic commercial market rates.

ANALYSIS

In evaluating the merit of these proposals to extend Eximbank operations and increase its lending authority, it is important to keep in perspective the basic goals and past record of Eximbank operations to date. Contrary to certain popular assertions that Eximbank heavily subsidizes U.S. exporters, the Bank's major thrust in facilitating U.S. exports is to provide flexible financing support arrangements which are competitive with those offered by government-related trading agencies of major foreign competitors. The competitiveness of a financing package figures heavily in modern-day export transactions, especially now that oil and other import costs have placed a tighter squeeze on the financial resources of many countries.

Export sales have a strong multiplier effect which benefits many sectors of the U.S. economy. In this context, the Bank's facilities can complement and encourage wider private financial participation in the export process. Many hundreds of smaller firms which act as suppliers to large export companies are not aware of the important stake they have in this process. Additionally, the availability of Eximbank financing for small and medium-sized exporters is often essential to their participaition in international trade. As the representative of thousands of smaller manufacturing companies, the NAM fully supports the continued need of Eximbank facilities for the smaller exporter who would otherwise be effectively excluded from world markets.

Eximbank operating authority should be continued and the proposed extension date to 1978 is supported by the NAM. Congressional supervision of Bank operations and funding will be adequately maintained through the established procedure of an annual review of Eximbank's operations and year-to-year approval by Congress.

In light of the heightened effectiveness of Eximbank operations and the need for larger loan commitment authority to meet higher levels of trade, the NAM also supports the proposed increases in lending authority. Bank operations have proven over the years to be responsibly managed; it is refreshing to find a government agency which does not ask for new appropriations each year and has indeed distributed some earnings back to the taxpayer. The increased lending authority now requested appears justified and appropriate to expand the Bank's beneficial services for U.S. exporters.

Many questions have been raised regarding Eximbank participation in East-West trade deals, particularly those relating to the Soviet Union. It is the position of NAM that Eximbank's role in this developing trade market should be the same as that with any other trading area, given proper national security and market disruption safeguards. To place unusual and time-consuming regulations on Bank determinations in this area, or to add non-germane restrictions to the process, would unduly disadvantage U.S. manufacturers seeking to fairly compete with foreign firms in these opening markets. Eximbank should not offer favored treatment to the Soviet Union or any other nation beyond that which is justified by established Bank limitations and credit-worthiness procedures. By the same token, appropriate and justified credit determinations should not be restricted, resulting in a penalty on American corporations engaged in legitimate contract negotiations.

The controversy surrounding Eximbank interest rates also would benefit from a broader perspective on the issue. The Congressionally-mandated objective of the Bank is to provide credit at rates competitive with those available to principal foreign competitors. If this goal is still a legitimate and worthwhile purpose—which the NAM certainly believes it is if this country is not to forfeit overseas markets to foreign competition—then the main standard of comparison should be the rates available to foreign firms abroad rather than domestic market rates at home. In this area, the effective cost of Eximbank credit generally runs above that of the principal U.S. competitors, with the exception of Germany. Since the Bank seeks to supplement and not replace private capital, the combination of Eximbank and private loan rates usually involved in a financial package could easily push the effective export credit rate up to a non-competitive level. Without Eximbank participation at lower-than-market rates, the U.S. manufacturer would often find it impossible to compete with financing packages offered by foreign exporters .

RECOMMENDATIONS

The National Association of Manufacturers:

(1) Recommends extension of Eximbank operating authority until June 30, 1978.

(2) Supports proposed increases in the Bank's lending limits.

(3) Recognizes the need for clarifying language in present statutes.

(4) Opposes unusual or non-germane restrictions on Eximbank operations relating to nonmarket economies.

(5) Emphasizes the need for interest rates allowing a competitive financing package for U.S. exporters.

SUMMARY

In conclusion, the National Association of Manufacturers recommends the extension of both the Export Administration Act and the Export-Import Bank Act. Most of the proposed item amendments should be adopted to further enhance the effectiveness of these programs, with the exception of the reservations noted relating to several unwarranted changes in export control authority. Although these different Acts appear on the surface to be somewhat contradictory in their objectives, the reality of present world trade requires that both of these authorities be preserved and improved in appropriate fashion. In order for the United States to retain a competitive position in the world marketplace, American manufacturers must have access to competitive financing arrange-

ments and the Government must retain adequate authority to administer export control programs while moving toward greater international cooperation on supply access issues and world trade reform.

NATIONAL FOREIGN TRADE COUNCIL, INC.,
New York, N.Y., May 3, 1974.

Hon. THOMAS L. ASHLEY,
Chairman, Subcommittee on International Trade, Banking and Currency Committee, House of Representatives, Washington, D.C.

DEAR MR. ASHLEY: On behalf of the National Foreign Trade Council I am pleased to forward this Statement of Views in regard to HR–13838 to amend the Export-Import Bank Act of 1945, as amended, on which Hearings are being held before the Sub-Committee on International Trade of the Banking and Currency Committee.

The membership of the National Foreign Trade Council comprises a broad cross section of U.S. companies engaged in all major fields of international trade and investment, including manufacturers, exporters, importers, bankers, insurance underwriters and companies engaged in rail, sea, and air transportation.

Over the years since 1934 our Council has strongly supported the Export-Import Bank because of the constructive role it has played in increasing U.S. exports by supplementing and supporting private banks and other non-governmental institutions in providing loans, guarantees and insurance for export financing. Continued further expansion and improvement of such programs at competitive credit rates and terms are essential to achievement of major U.S. objectives to increase exports, to strengthen our balance of payments position, and to maintain the position of the United States in world trade.

The Council accordingly urges early enactment of the legislation presently before the Congress (HR–13838) particularly as it extends the life of the Export-Import Bank for four years to June 30, 1978, increases the Bank's commitment authority from the present statutory limitation of $20 billion to $30 billion and increases the amount which the Bank may have outstanding in guarantees and insurance—chargeable against its overall authority at 25% of the related contractual liability—from the present $10 billion to $20 billion. The Council also endorses the provision of HR–13838 which would exclude from the statutory borrowing limits of national banks the liabilities incurred by such banks in any borrowing from the Export-Import Bank.

The Council has supported the steps which the United States has taken in recent years towards normalization of trade relations with non-market economy countries. Such steps must be taken, in our view, with due recognition of the interdependence of the political, economic, and national security elements in overall foreign policy, and with appropriate safeguards for our national interests. Further such progress in normalization of such trade relations should be pursued on a basis that will stimulate economic growth of the United States, strengthen economic relations with non-market economy countries and thus contribute to attainment of a more open and non-discriminatory world trading system.

The availability of Export-Import Bank credits and guarantees to supplement private U.S. and foreign financing is essential if U.S. suppliers are to compete effectively in the expanding trade with the Soviet Union and the other non-market economies of Eastern Europe. The non-military products mainly involved in this trade are generally available from the industrial countries of Europe and from Japan and the commitments of the official export credit agencies of these countries to the Soviet Union and the countries of Eastern Europe are many times larger than those of the Export-Import Bank.

On behalf of the Council, accordingly, we strongly recommend that the Export-Import Bank should continue to be authorized to finance and guarantee exports to non-market economy countries under presently applied statutory criteria and procedures. We would continue to oppose, as we did in testimony before the Senate Finance Committee on March 21, 1974 at Hearings on the Trade Reform Act of 1973 (HR 10710), proposed legislation—however well intentioned on humanitarian or other grounds—which would introduce non-germane restrictions upon the operations of the Export-Import Bank in financing U.S. exports to non-market economy countries. Such restrictions would seriously impair the ability of the United States to compete in these expanding markets.

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Twenty-five copies of this communication of the Council's views are being sent to permit their distribution for consideration by members of the Sub-Committee on International Trade. It is respectfully requested also that this Statement be included, in lieu of testimony, in the records of the Hearings on HR-13838.

Sincerely,

ROBERT M. NORRIS,
President.

STATEMENT OF THE AMERICAN TEXTILE MACHINERY ASSOCIATION REGARDING S. 1890, AMENDMENTS TO THE EXPORT-IMPORT BANK ACT OF 1945

The American Textile Machinery Association [ATMA] welcomes this opportunity to express its general support for S. 1890. ATMA is a voluntary association of manufacturers of textile machinery and parts. The membership of ATMA includes the vast majority of concerns which manufacture equipment used in the porduction of textiles. Member companies of ATMA are headquartered in twenty different states of the United States. However, almost three-fourths of the companies have fewer than one hundred employees.

The American textile machinery industry is almost unique among American manufacturers in its international trade position. Since 1960, U.S. textile machinery porducers have witnessed a steady erosion of their domestic market share caused by unrestrained imports. U.S. producers have responded to this challenge by intensifying their own export efforts. Last year, over $239,000,000 worth of equipment was exported by American textile machinery firms—an increase of 37 percent over 1971.

ATMA members have been flexible in their reaction to free trade, most companies increasing their worldwide sales in the face of intense foreign competition in the domestic market. Two years ago, a small number of ATMA members (most witt under four hundred employees) took advantage of a little-used provision in our laws, forming a Webb-Pomerene Export Trade Association, now known as AMATEX. To date, AMATEX has booked more than $9,000,000 in export orders for complete new mill installations abroad—a highly competitive area in which U.S. machinery porducers were formerly at a distinct competitive disadvantage. AMATEX has made it possibel for mony of its members to enter certain foreign markets for the first time.

Much of the progress made by our industry, both through AMATEX and by individual textile machinery company export programs, has been made possible through the support of the Export-Import Bank.

ATMA members view Eximbank as a unique example of a government-controller entity which costs the taxpayer almost nothing while providing an indispensable service to small and medium-sized manufacturers. Aside from assisting our balance of payments, Eximbank loans create literally thousands of jobs within the United States. Viewed another way, during the past five years, vigorous export programs utilizing Eximbank guarantees have preserved thousands of jobs which would otherwise have been swept away in a flood of foreign textile machinery imports.

It is within this context that ATMA strongly endorses the comments of Mr. Casey before the Senate Banking Committee on April 12.

The additional $10,000,000 commitment authority provided in S. 1890 cannot help but to stimulate export expansion—a critical need at a time of rising oil prices and a turn-around in our balance of trade.

ATMA is concerned, however, that a number of debilitating amendments may be added to this bill, gutting its efficacy and severely limiting export opportunities. Specifically, any attempt to limit export financing on sales of products to the Socialist countries could be disastrous. Aside from the narrow area of military hardware. there is little justification for limiting free trade with countries able to purchase American products. ATMA members are even now engaged in negotiations with several Socialist countries for the sale of several million dollars worth of machinery. Unwarranted restriction upon Eximbank to provide needed funds would not serve the pressing economic needs of this country. Amendments of this nature do not deny Socialist countries the products they desire, they simply insure purchase from a non-U.S. source.

Textile machinery export sales are consummated only after long periods of marketing effort and negotiation. Our export sales cannot simply be turned on and turned off.

The same is true of many other exports. Nothing is more damaging to a sustained improvement in this country's export position than a "now you see it—now you don't" approach by our government toward export expansion and the export financing needed to support it. We urge the Committee to take a long-range view as to the importance of export expansion as it considers and amendments to S. 1890.

Finally, ATMA believes Eximbank must be granted the widest possible discretionary authority to regulate its own interest rates so it may remain competitive with both private lending institutions, and foreign naional banks. In the world market, ATMA members must compete with foreign cartels, often subsidized by their respective governments. While American textile machinery is competitive in quality and price with almost any in the world, sales are often conditioned upon the availability of adequate financing. This factor is generally beyond the control of the American manufacturer. Unless he can rely upon Eximbank to provide internationally competitive financing terms, sales will inevitably be lost to foreign competition. ATMA accordingly urges the Committee to refrain from unduly restrictive conditions upon Eximbank's ability to respond quickly and decisively to changing international monetary conditions.

In concept, S. 1890 provides a solid foudation for expanded U.S. exports. Aside from the considerations mentioned herein, ATMA endorses this legislation.

STATEMENT BY THE NATIONAL CONSTRUCTORS ASSOCIATION IN SUPPORT OF S. 1890

The National Constructors Association is composed of 42 International Engineering-Construction companies, engaged primarily in the field of heavy industrial design, engineering, and construction. Representative projects include oil refineries, steel mills, petrochemical plants, nuclear and conventional power plants, pulp and papermills, and other highly automated manufacturing facilities. The combined annual business of our member companies in 1972 was approximately $14 billion, of which some $3.5 billion was derived from overseas work. Over past years, approximately 60% of our overseas business has been in the form of exports of equipment and materials from the United States, which were supplied to us by thousands of manufacturing companies from all over the United States.

The Engineering-Construction industry, just as other segments of our industrial economy, derives benefits from the export of goods and services. These benefits accrue not only to the companies and the workers so engaged, but also to the entire United States' economy. The manufacturing of goods for export creates domestic employment, as does the actual exporting procedure itself. The dollars which are generated flow to the United States, and help in efforts to reach a favorable balance of payments. Any curtailment of such activity would, of course, reduce the corresponding benefits.

The imbalance of our foreign trade and that of our payments was in great part due to domestic factors which placed U.S. exporters in a non-competitive position. Efforts made to correct this, such as the devaluation of the dollar, currency realignment, support of export expansion programs, and a more aggressive policy by the Eximbank, have been partially successful, and the United States again experienced a favorable payments balance. Recently, however, with the increase in foreign fuel costs and in the costs of raw materials, our balance is again imperiled, and further action will be necessary to again correct the situation. The Export-Import Bank can provide part of the assistance necessary in reaching that goal. By providing financing for exports at rates some what comparable to those offered by their governments to our foreign competitors, the Bank can assist in generating the foreign exchange necessary to pay the increased price for critical imports.

Currently, the Bank will finance as much as 45% of the cost of an exporting operation at a rate of 7%. The remainder must be secured from private sources at domestic commercial rates. Even this assistance leaves us at a competitive disadvantage, since the blended rate is higher than that offered by most of our competitors. Without Exim financing, the total cost of the export would have to be financed on the commercial money market, and the rate would be so high as to nullify the effect of the dollar devaluation and currency realignment. The $3.5 billion worth of overseas business which we perform would be seriously jeopardized. Since 60% of that figure represents exports of goods, our suppliers around the country would experience a similar impact.

A fact which is seldom understood is that the Bank is not a burden on the taxpayers. It returns $50 million to the Treasury Every year, and since its establishment 30 years ago, it has returned $835 million to the Treasury. It currently supports $10.5 billion worth of export sales, the product of 738,000 full time jobs. Over the life of the bank, American business has derived over $5 billion in profits, due to a total of $71 billion of export sales. The federal government, in addition to the $835 million returned as a dividend directly from the bank, has received $16 billion in taxes and other revenues as a result of the operations of the bank.

In 1971, at a time when the United States was experiencing a severe problem with the balance of payments, this same committee approved legislation for the extension of the Eximbank for three years. The result of this action, in combination with actions taken by the executive branch, was to increase the flow of goods and services into foreign markets and to regain a favorable balance of trade. A similar action at this time would contribute to restoring that balance under current conditions. First, the Congress should extend the operating authority of the Bank for another three years, and second, it should increase the Bank's authorization by the requested $10 billion, to provide the capacity to continue its beneficial work. Third, the Bank should remain free from the annual budgetary limitations, which severely restricted the bank's operations prior to their removal three years ago.

Some sentiment has been expressed in favor of certain amendments to the Bank's enabling act, which would serve to restrict the discretion of the Bank's Board of Directors as to the type of projects which would be eligible for financing and to whom such money could be made available.

The first is to prohibit credits to the Soviet Union based upon their restrictive emigration policies. The intent of the Congress here is quite clear, attemping to persuade the Soviet Union, by withholding such financing, to relax its policies in this regard and to permit free emigration. The National Constructors Association is in agreement with the goal, finding no reasonable moral basis for excessive taxes, fees, or penalties on the free movement of individuals between countries. However, the mixing of these justified humanitarian concerns and a long term trade policy appears unwise. Not only is the emigration question irrelevant to the purpose of this legislation, but shows no signs whatsoever of being able to accomplish its goal. In fact, it may be counterproductive, since the improvement in Soviet policy so far may be eradicated if the leaders of the U.S.S.R. resent this threat and abandon any idea of moving toward a reasonable policy. The U.S. must move cautiously, particularly when we are attempting to influence the domestic policies of other sovereign nations. The NCA recommends that this question be considered not in the context of foreign economic policy, but rather in some area where it will be both relevant and effective.

Another sentiment which has been expressed is that Exim be prohibited from financing projects which involve materials which are in short supply. Again, we can fully appreciate the intent of the individuals who have proposed such restrictions. Our own members are experiencing adverse effects from shortages of nearly all materials and equipment which are included in plants and projects. We fear the long-term effects of overreaction to temporary difficulties. The recent end of price controls promises to alleviate many of the most critical shortages. A long term restriction on the export of goods in "short supply", a term which we ourselves find very difficult to define, will merely continue the market distortions which we are exeriencing, and will slow any progress in the direction of a reasonable and dependable supply of such goods. Only when a material reaches a critical point should export control be considered, and then only by an agency designed to deal with it. The expertise required to administer this type of program is non-existent at the Export-Import Bank, and they should not be burdened with it.

Finally, a suggestion has been made that the bank should be prohibited from assisting in the financing of projects designed to develope the energy resources of the Soviet Union. We cannot understand the reasoning behind this proposal. In this time of world-wide energy shortage it would be very shortsighted of the United States to adopt a policy of this sort which serves to reduce the potential world-wide energy supply. The development of soviet internal resources reduces their demand on external supplies, reducing to some extent the crushing demand which has increased the price of those resources so dramatically. And, even if the Congress were to consider this a proper measure for adoption, the Eximbank should not be burdened with it in its enabling act, but it should be enacted in a more appropriate piece of legislation, and administered by an agency which has the proper capabilities.

These restrictive amendments woud serve to accomplish one thing: they would reduce the number of trading opportunities which the long-term trade policy of the United States seeks to capture. American firms would not be able to compete in these areas, since the financing would be supplied on very favorable terms, by foreign nations, to their own producers. The Eastern European countries and the Soviet Union would receive the goods and services they want and require from foreign nations which would have captured a market from which we had cut ourselves out. The only individuals who would suffer from this course of action would be the United States industry which manufactures goods for export and supplies services to be performed overseas; the workers in those industries would find employment reduced as a result of a decrease in the volume of their companie's work.

The National Constructors Association therefore recommends that S–1890 be passed expeditiously, without restrictive amendments, and recommends that the goals sought by the aforementioned amendments be discussed in a more appropriate and more effective legislative proposal.

STATEMENT OF THE INTERNATIONAL ENGINEERING AND CONSTRUCTION INDUSTRIES COUNCIL

The International Engineering and Construction Industries Council (IECIC) was formed in 1967 to encourage the export of U.S. Services and of U.S. Goods. The constituent associations, the Associated General Contractors of America, the American Consulting Engineers Council, and the National Constructors Association encompass the full spectrum of U.S. engineering and construction know-how from the pre-investment feasibility study to the construction and start-up of projects. This applies to infrastructure, such as power, transportation, irrigation, and sanitary installations, as well as to industrial projects such as steel mills, petroleum refineries, fertilizer plants, etc. The penetration of American engineering and construction services has been recognized as a major determinant in the selection of U.S. equipment and materials.

In 1972, our industry billed close to $5 billion in contracts abroad; the figures for 1973 will show substantial increases which contributed in a great measure to restoring the balance of trade in our favor and improved considerably our balance of payments.

To fully evaluate the impact that these contracts have on our economy, however, one should take into consideration that well over 50% of the value of these service contracts includes U.S. goods and equipment, which might otherwise have gone to suppliers of other nations. The absence of U.S. engineers and contractors in the specification of U.S. materials and equipment, as a consequence, would have an immediate impact on employment in our domestic industry and on conditions within our own economy. The supply of U.S. Goods and Equipment is provided by a multiplicity of manufacturers, large and small, from pratcially every state in the country. Employment derived from export orders is particularly high in capital goods and sophisticated equipment. Full recognition of the grass roots nature of this production for export merits particular attention at this time and for future expansion of our economy.

Within our own industry our member companies represent both small and large firms varying from a small number of technical staff to large concerns with thousands of employees. Devaluations of the dollar and currency adjustments have contributed to restore a measure of competitiveness to our prices, however, this temporary advantage is in serious damage of being nullified by measures being considered by the Congress. The result would be a return to the negative balances which have been in effect prior to 1973. The requirement to provide more hard currencies for the purchase of energy materials and the growing lack of concern towards encouraging our export trade might result in very serious consequences to our economy.

The successful operations of the Export Import Bank of the USA has been in recent years the mainstay of U.S. industry in regaining ground lost in the sixties, and IECIC recommends to this Committee support of the Administration Bill S–1890 to extend the life of this institution and to increase authorization of operation from the present $20 billion to $30 billion. We firmly believe that those

factors which were presented to the Congress in 1971, when similar legislation was under study, still prevail. The 1971 Export Import Bank Act thus:

1. Continued the Charter of the Bank for a full three years;
2. Liberated the Bank from annual budgetary limitations which had severely limited the flexibility of its operations; and
3. Charged the Bank with providing competitive financing, and reporting periodically to the Congress on this aspect of its operations.

Three years later, despite the success attributable to the wisdom of the Congress in passing the 1971 legislation, we are faced with the following situation: *Firstly,* the Charter of the Bank must be renewed for a further period providing continuity of operation. *Secondly,* the flexibility of the Bank's operations are threatened by provisions of HR–10710, which introduces humanitarian considerations into foreign trade legislation where they conflict with our long term policy of expanded foreign trade. Such humanitarian considerations are provided for in other legislation, and through other agencies such as the UNDP. *Thirdly,* possible passage of proposed amendments or legislation would restore annual budgetary limitations which had severely restricted operations in the past. *Fourthly,* although Eximbank's lending authority has been as important as its authority to guarantee commercial credits in providing long term financing for major projects, efforts, based on academic considerations alone are being made to restrict the Bank from providing these direct loans. Since most exporting countries provide preferential financing to their exporters, this, in fact, runs counter to the intent of Congress of providing competitive assistance to U.S. exporters. Already the recent increase of interest rate of these loans from 6% to 7% per annum has countered the effects of devaluation and once again restricted the volume of our exports. The Eximbank has operated for three years under the flexible frame established in 1971, and it has consistently produced dividends to its stockholders, and has stimulated exports and related benefits to the economy of the United States, without any drain on the budget.

We, therefore, request this Committee, and the Congress of the United States, to pass S. 1890 without amendments which would endanger its effectiveness.

In this connection, we also wish to request that this Committee examine a related measure, S. 3282, the Export Administration Act of 1974; a measure which might have serious effects on our national policy of continuing expansion of Foreign Trade. Existing legislation, which only needs renewal, already gives the Export Administration Office authority to restrict export of "Short Supply Materials" and to restrict export of certain technology which might endanger our security, no other new legislation is needed in this respect. The Administration proposal appears to us to be an over-reaction to events of the past few months. Similar authority for retaliation is already contained in the Foreign Trade Bill (HR–10710). The criteria established by the latter are very specific and apply to imports from those countries which take actions affecting our economy. To apply these to exports to those countries appear to be a return to a philosophy now completely discredited, which was prevalent some thirty years ago.

May we invite the Committee's attention to the fact that international trade relations are vital to the welfare of our nation, and all the more necessary in view of additional demands on our need to earn foreign exchange to pay for increased cost of oil and petroleum products, may be imperiled by sacrificing our long-term policy to placate short-term reactions instead of proceeding to more orderly negotiations.

General Electric,
International Sales Division,
New York, N. Y., May 2, 1974.

Hon. Thomas L. Ashley,
Chairman, Subcommittee on International Trade, Committee on Banking and Currency, House of Representatives, Washington, D.C.

Dear Chairman Ashley: The purpose of this letter is to express General Electric Company's strong endorsement of H.R. 13838 which would amend the Export-Import Bank Act of 1945 by extending the life of the Bank to June 30, 1978 and by increasing its loan, guarantee and insurance authority. We believe this legislation is vital to expansion of U.S. exports and that this expansion in turn is critical both for U.S. employment and the U.S. balance of trade.

General Electric is a manufacturing company with a broad variety of product lines, all deriving from a common core of electrical technology. Its 1973 U.S.

exports amounted to over $1.1 billion—almost 2½ per cent of total U.S. exported manufactures for 1973. Since 1968 General Electric's export volume has doubled from roughly half a billion dollars to over a billion dollars. This General Electric export business has been highly diversified. No one product line has consistently accounted for over 10 per cent of the volume and neither has any one country.

About a year and a half ago we made studies of the effect of the Company's international activities—exports, imports, overseas investment and licensing—on domestic employment. These studies showed that the net favorable effect was in excess of 20,000 full-time jobs; about 65 per cent of this number were hourly paid employees. We think that the current number would be closer to 25,000 General Electric domestic jobs to which should be added perhaps another 25,000 in other organizations—suppliers of materials and services, financial institutions, shipping and transportation companies and government agencies. In addition to these 50,000 domestic positions, U.S. employment in General Electric businesses such as locomotives, gas turbines, aircraft jet engines and marine propulsion, is indirectly attributable to export volume. These businesses serve and are dependent upon world markets and export sales are critical to their success because of high investment and high development costs.

For General Electric Company, the availability of Export-Import Bank financing has been invaluable for the continued growth of our export business. During the last five years Eximbank financing has supported approximately 48 per cent of General Electric's exports, amounting to $1.7 billion. In 1973 alone, with Eximbank support, General Electric received orders totaling $617 million. In our judgment, without this support this figure could have been reduced by two thirds.

This financing was of benefit not only to General Electric export sales and employment but also to a great many other firms which participate with us in exports by supplying components, materials, equipment and services which we do not provide, in order to furnish a completed project to a foreign customer.

The successive devaluations of the U.S. dollar, the high level of economic activity in the world, and a combination of other favorable factors contributed to a turnaraund in the U.S. merchandise trade balance from a negative figure of almost $7 billion in 1972 to a modest surplus in 1973. However, this performance has already been dulled by the negative trade figures of March 1974 and by the forecast of a continuing unfavorable balance in the future.

In this difficult world economic situation, the United States has its work cut out for it if it is to maintain a favorable balance of trade. The figures we have quoted above from General Electric's own experience about the Export-Import Bank's support for export transactions demonstrate how critical the Bank's role can be in the necessary growth of such exports and in the maintenance of a favorable U.S. trade balance.

The Eximbank preliminary commitment procedure initiated in 1970 is one which enables U.S. exporters to respond promptly and affirmatively to the financing requirements of their customers. While U.S. technology and product quality are strong sales tools in world markets, they are more frequently being challenged by foreign suppliers.

All industrial countries provide their exporters with credit facilities in one form or another. Over the years the financing terms offered by them have been competitive with those offered by the Eximbank of the U.S. Unless the Eximbank continues to offer financing packages substantially competitive with other countries, U.S. exporters will be at a disadvantage. For example, the discounted present worth of each 1 per cent in interest rate over a 10-year term is equal to about 4 per cent of the price—the margin by which many orders are won or lost. Any customer will add that amount to quoted prices when comparing offers from suppliers from different countries. U.S. exporters do not expect or require preferential financing but only need the support of Eximbank with interest rates and terms that are substantially competitive.

From an international competitive point of view there is a need not only for export financing on terms comparable to those offered by other governments, but also for *timely assurance* of the availability of such financing. In the fast-moving world of international trade, delay or uncertainty can be as devastating as an outright negative decision. Stringent case-by-case Congressional review procedures of the kind proposed in some quarters could put U.S. industry at a serious competitive disadvantage by destroying the Bank's ability to respond promptly and flexibly to the financing requirements for particular projects.

We urge, therefore, that the Subcommittee, in acting on the extension legislation, recognize the necessity of preserving flexibility in the Bank's day-to-day operations.

We are sending an identical letter to Senator Stevenson, Chairman of the Subcommittee on International Finance of the Senate Committee on Banking, Housing and Urban Affairs.

Yours very truly,

HOYT P. STEELE,
Vice President.

STATEMENT BY HERBERT P. BURE, PRESIDENT, ELLICOTT MACHINE CORPORATION, DREDGE DIVISION, BALTIMORE, MD.

Mr. Chairman, I am very pleased to provide a statement regarding the extension of the Authorization of the Export Import Bank of the United States.

My company is a Small Business firm with a large percentage of export sales and we are especially interested in any proposals which have an effect upon export trade or financing. The Export Import Bank has provided services which have enabled our firm to make numerous export sales which could not have been consummated without the Bank's participation. In fact, without the availability of the services of the Export Import Bank, these sales would have gone to our foreign competitors. We look forward to the continued availability of these services, and I urge you to extend the Export Import Bank's Authorization.

In view of the current review by your Subcommittee into the matters regarding Eximbank operations in participating in the financing or issuing of guarantees on commercial banking for foreign procurement of American-made products, I wish to express my company's concern over the possible change in bank policy regarding Presidential Determinations to allow the Bank to support American sales in Eastern Europe.

If the policy of requiring Presidential determinations on a project by project basis, rather than on a country by country basis is adopted, our sales efforts in Eastern Europe will be severely hampered and our foreign competitors will reap great benefits.

Our company, as a Small Business firm in a highly competitive international field, has for many years been the largest U.S. designer and manufacturer of dredges and dredging equipment. Ellicott was established in 1885 and designed and built all of the hydraulic dredges which dug the Panama Canal in 1907. Our business has grown and developed throughout the world to the extent that we compete for the world dredge business primarily with one foreign cartel based in The Netherlands. We compete with them on virtually all-dredge procurement projects all over the world.

Our Company started exporting in the mid '30's, just before the Export-Import Bank was founded, and, as an average over the last five years, we have exported 75% of our total production from the Baltimore plant. We have worked with Eximbank for over 25 years on many projects.

Dredging equipment is normally considered a long term investment to our customers, whether agencies of foreign government or private international contractors, and long term financing of the dredge purchase price is a tradition in the international industry.

A large percentage of our resources is constantly applied by the Company to research and development, leading to improved products which give our customers a higher return on their investment. Ellicott has advanced the U.S. dredge technology to the highest in the world.

Even during the period of the 1950's and '60's when we were severely handicapped in the internatioal trade by an unfavorable rate of exchange between the United States dollar and foreign currency, primarily the Dutch guilder and Japanese yen, we managed to increase our share of the export business in competition with these countries as a result of continuous improvement in our products which actually resulted in a gradual reduction in purchase price and cost of investment to our customer against an ever increasing productive capability and return on the investment.

Our overseas customers in dredge buying countries—and Ellicott dredges are well known in more than 60 countries of the free world—must be able to count on the availability of competitive credit terms from the United States in order to consider Ellicott as a potential supplier of dredging equipment.

If such financing is not available on a predictable basis, the United States and Ellicott are deprived of the opportunity to compete on the world market.

A recent example of this is the negotiated transaction between the Peoples Republic of China and our Dutch competitors which led to the largest single dredge procurement contract in the history of the industry for the very same type of equipment on which we can normally compete successfully, because no United States financing was available.

We submit that the financial services offered by Eximbank are not a direct benefit to the foreign buyer, but rather a necessity to the U.S. Manufacturer. Please note that we are not talking about any form of foreign aid, which is quite another matter and of no particular interest to my company. We are addressing a situation whereby our foreign buyer should count on the same financing terms from Eximbank as he can negotiate with financial institutions in other industrial countries, so that our Company is provided with an opportunity to compete with our foreign competitors.

Let me repeat: It does not provide us with an advantage, it merely puts us on an equal footing with our foreign competition. It is then up to us to compete dollar for dollar, pound for pound of hardware, and our technology against theirs.

The degree of certainty which the foreign buyer must have, demands more than an admission of his application for a preliminary commitment, subject to an extensive bureaucratic evaluation of his particular project, with excessive demands for detailed information of the buyer's political or financial credentials; it demands a certainty on the buyer's part that if he decides in favor of the Ellicott product because of the technical and economic advantages which it offers to him, he will indeed be able to get his credit application aproved quickly and efficiently when he can provide the appropriate guarantees and priorities from his government.

The lapse of time involved in the approval procedure from date of application to final execution of the loan agreement is an important economic factor in the decision making process of the foreign buyer. For example—a 4½ million dollar Elicott Dredge System, which may require approximately 3 million dollars worth of export from the U.S., may take approximately 12 months to build and complete. ready for operation, and have a productive capability of 1 million cubic yards per month, or approximately ½ million dollars of monthly revenue. A delay in processing this foreign buyers application of as little as two weeks may represent an economic loss to him of approximately one quarter of a million dollars which would be sufficient to turn his back to the U.S. and Ellicott and procure equipment elsewhere.

In the last several years, Eximbank has made many constructive and far reaching improvements to reduce the turnaround time between application and final commitment which has been a significant benefit to our Company in negotiating export contracts. Please note that Eximbank was really beginning to close the gap. The foreign financial institutions still are quicker and faster on their feet.

The present consideration for approval on a project by project basis to countries to which export financing of U.S. products has already been judged to be in the national interest, by Presidential determination, would be a severe set-back to our Company's export and represent an abdication of our interest in favor of our foreign competitors.

We strongly urge your Subcommittee to recommend extension of authorization of Eximbank, and support a clear definition of country by country evaluation without the additional burden of Presidential determination of each specific project within such country, and further assist and urge Eximbank to take every possible step to reduce its turnaround time between application and final commitment in cases where the foreign country's priorities and guarantees are clearly established.

Statement of John Nelson Washburn, LL.B, Ph. D.

For the record, I am John Nelson Washburn, a Washington-based international lawyer and scholar, author of *Soviet Theater: Its Distortion of America's Image, 1921 to 1973*, a book published in 1973 by the American Bar Association, and of a series of seven articles on Soviet sports published in *The New York*

Times in 1972–1973 and printed in the *Congressional Record* of April 29, 1974 at the request of Senator Adlai Stevenson, III.

In connection with international economic policy legislation now pending, I wish to express my concern with the inadequacy of Presidential Determinations in situations involving actions taken by the Export-Import Bank of the United States under Section 2(b)(2) of the Export-Import Bank Act of 1945, as amended.

It is my position that in the matter of extension of credit to the U.S.S.R., which has succeeded for years in preventing the United States from obtaining reliable information on a timely basis about certain Soviet industries and areas of economic development, while piling up data on the United States economy to be analyzed and exploited as appropriate when the occasion presents itself, it is high time for the Congress to require that future Presidential Determinations under Section 2(b)(2) meet certain difficult criteria, actually proving that the transaction, or series of transactions, involved could be said to be in fact in the national interest.

In this connection, there should be some guidelines designed to prevent the kind of governmental/non-governmental mish-mash exemplified by the grain deal debacle of 1972. Congressional efforts to pin-point responsibility within the Executive Branch of the United States Government for the fiasco which emerged in the summer of 1972 were essentially in vain, as in the exchange of questions and answers between Senator Harry F. Byrd, Jr. and Helmut Sonnenfeldt, October 1, 1973, in Senate Finance Committee consideration of Mr. Sonnenfeldt's nomination to be Under Secretary of the Treasury:

Senator BYRD. Well, two memoranda have been published which it was stated were sent by Dr. Kissinger to the Secretaries of State, Commerce, and Agriculture, the first being dated January 31, 1972. . . . Then another dated February 14, 1972:

"The Department of Agriculture, in cooperation with other interested agencies, should take the lead in developing for the President's consideration a scenario for handling the issue of grain sales to the U.S.S.R. This should include a recommendation on how the private transactions of U.S. grain sales would be related to government actions, including the U.S. opening a CCC credit line and a Soviet commitment to draw on it. In cooperation with the Department of State, Agriculture should explore with the U.S.S.R. the time and modalities of beginning such negotiations as soon as possible. This should be submitted tc the President by no later than February 28, 1972."

Do you concur in the policy implicit in these directives?

Mr. SONNENFELDT. . . . I think that is a standard practice in the White House, if there is the possibility of an impending negotiation to ask the agency or the Cabinet officer concerned to submit to the President a scenario or plan, a game plan, if you will, of how he proposes that negotiation so the President can look at it, approve it, or modify it as he sees fit.

My judgment would be that in early 1972 before anyone was aware of any serious harvest problems in the Soviet Union, the United States was getting itself ready for the contingency of a possible grain negotiation and that, as I hear your quotation, that is what this was all about.

Senator BYRD. Well, originally it is my understanding that, originally was that, the Soviet Union would make purchases of American feed grains. When did it become evident that the Soviet had a major interest in the U.S. wheat crop?

Mr. SONNENFELDT. Again, speaking without direct involvement, my impression is, Senator, that did not become evident until even after the summit, which was in May of 1972. I don't think that became clear until—I am not saying this from direct personal knowledge but my impression is that that wasn't really indicated until about June of 1972.

Had Senator George D. Aiken rather than Senator Harry F. Byrd, Jr. been the man quizzing Mr. Sonnenfeldt, for the past five years Dr. Kissinger's top aide specializing in Soviet affairs, solid facts leading up to the notorious grain deal might have been elicited. For Vermont's Senior Senator is on record, at the Jewell Brook Watershed Dedication at Ludlow, Vermont, August 16, 1973, as stating:

> "Contrary to political charges now being made, the fact that Russia was dickering for wheat in this country was known for at least three months prior to the announcement that an agreement had been made between the Soviet Government and private dealers in the United States."

A principal Senatorial advocate of the proposition that the summer 1972 sale to the U.S.S.R. of one quarter of the American wheat crop was "a monumental blunder in judgment by our government" was Senator Henry M. Jackson. On July 19, 1973 he charged that, on the basis of a Chronology prepared by the Senate's Permanent Subcommittee on Investigations chaired by him, there was a wealth of information available to the U.S. Department of Agriculture on the "disastrous condition" of the wheat crop for 1972 in the U.S.S.R. In that Chronology the second item, and the first reflecting hard information reported to Washington from American Embassy, Moscow, was dated "2/9/72" and begins as follows:

> "Reports from the Agricultural Attaché in Moscow indicated that the winter grain crop had suffered significant damage. The damage was caused by a lack of adequate snow cover on the fields and very low temperatures resulting in winter kill. Doubt was already expressed that the Soviet's annual grain production goals for 1972–73 could be achieved. . . ."

Having ascertained that nobody on the staff of the Senate Permanent Subcommittee on Investigations knew the Russian or Ukrainian language, I personally have checked the most important Russian-language (*Pravda Ukrainy*) and Ukrainian-language (*Radyanska Ukraina*) newspaper issued in Kiev, capital of the Ukrainian S.S.R. to discover when any hard information on the "disastrous condition" of the Soviet wheat crop became public knowledge. The earliest and also most authoritative revelation to this effect came February 4, 1972 in a speech by Comrade P. E. Shelest, member of the Politbyuro of the Central Committee of the U.S.S.R. as well as First Secretary of the Central Committee of the Ukraine. Kievan newspapers of February 5 carried the full text of this keynote speech delivered to a Ukrainian Republic Conference of Agronomists meeting in Kiev beginning February 3. The two key sentences uttered by Comrade Shelest which point up the very real difficulty faced by the 1972 Soviet wheat crop at least in the Ukraine were:

> Во многих районах еще с осени были малые запасы влаги, что привело к недосеву озимых. В ряде областей поля и до сих пор не покрыты снегом, между тем по всей территории республики установились очень низкие температуры.

In my translation, what he said was:

> In many regions as far back as autumn there were small supplies of moisture, which led to insufficient sowing of winter crops. In a number of provinces the fields even up to now have yet to be covered by snow and, meanwhile, throughout the entire territory of the Republic very low temperatures have set in.

Because there is no specific mention of an editorial "Vesne Navstrechu" (Spring is on the Way) in the Moscow newspaper *Pravda* for February 18, 1972, No. 49 (19557), to be found in the U.S. Senatorial Chronology referred to above, this editorial should be cited for the record. No genuine Soviet expert can take the liberty of overlooking a front page editorial of *Pravda*, Organ of the Central Committee of the Communist Party of the Soviet Union; in this issue the penultimate sentence of the lead paragraph stated:

Severe January frosts here and there have damaged the winter grain crops and perhaps it will be necessary to resow some portion of them.

П

Газета основана
5 мая 1912 года
В. И. ЛЕНИНЫМ

Орган

№ 49 (195

ВЕСНЕ НАВСТРЕЧУ

Близится к концу последний месяц зимы. Земледельцы завершают подготовку к весеннему севу. В своих рабочих планах колхозы и совхозы, учитывая особенности предстоящей посевной, намечают пути дальнейшего повышения урожайности полей. Суровые январские морозы кое-где повредили озимые хлеба, и, возможно, придется какую-то часть их пересевать. Значит, возрастет объем работ, потребуются дополнительные усилия, чтобы выполнить государственные планы и социалистические обязательства.

As indicated in a two-part article over the signature of F. Sergeev, "Without Leaving the Office," in November 1970 issues of *Nedelya* (The Week), Sunday Supplement to *Izvestiya*, the Soviets try to reduce to an absolute minimum in their publications concrete information potentially valuable to foreign countries. In the case of the 1972 Soviet wheat crop, its size and its disposition, Soviet authorities went so far as to omit entirely in *Vneshnyaya torgovlya SSSR za 1972 god* (Foreign Trade of the U.S.S.R. for the Year 1972), a Statistical Survey of the Economic Planning Directorate of the Ministry of Foreign Trade of the U.S.S.R., published in Moscow in 1973 by International Relations Publishing House, and described on page 2 as "the most complete source of annual statistical information on U.S.S.R. foreign trade issued in the U.S.S.R.," any mention on page 311 in its listing of imports to the U.S.S.R. of wheat, although, as reported

in *The New York Times*, December 21, 1972, in a UPI dispatch with photo from Odessa, U.S.S.R. datelined December 20, the Ogden Willamette, carrying 36,500 tons of wheat, had anchored there December 19 and loading had begun "almost immediately "using" American-made pneumatic suction machines recently purchased by Soviet port administrators." According to the methodological explanations provided in this Statistical Review, as in prior years, the import date for goods is considered to be, in the case of water transport carriage, the date of the arrival of the ship with imports in the first Soviet port as that date is notified to the port administration. Despite making the December 31. 1972 cutoff date for official 1972 importation of seaborne cargo, the Ogden Willamette had failed to make the authoritative *Vneshnyaya torgovlya SSSR za 1972 god!* What nerve on the part of Soviet authorities!! (Almost equally noteworthy was the absence of any mention whatsoever of Soviet wheat in lists of selected items exported by the U.S.S.R. during 1972 to its regular major East European customers—German Democratic Republic, Poland and Czechoslovakia.) For those who wish to verify this page 311 omission, the end of the list of Soviet imports in 1972 from the U.S.A. is set forth below, "pshenitsa" (wheat) being absent from its customary spot between numbers beginning with 6 and those starting with 8.

Соединенные Штаты Америки — импорт (продолжение)

Товары		Единицы измере-ния	1971 г.		1972 г.	
			коли-чество	стои-мость	коли-чество	стои-мость
170, 171, 178, 179	Приборы и лабораторное оборудование	—	—	1 506	—	2 972
172	Медицинское оборудование и инструмент, кроме оборудования химико-фармацевтической промышленности	—	—	443	—	326
181	Сельскохозяйственные машины	—	—	40	—	238
22	Нефтепродукты, синтетическое жидкое топливо	т	1 200	405	1 500	472
24216	Глинозем	тыс. т	447,0	27 640	243,1	13 156
26423	Сталь конструкционная листовая углеродистая	т	160	124	—	—
30	Химические продукты	—	—	8 715	—	8 898
304	Пластические массы и материалы для производства пластических масс	—	—	4 862	—	2 492
30421	Смолы искусственные	т	10 724	4 737	4 050	1 574
30724	Моноэтаноламин	"	—	—	776	149
30763	Дифенилпарафенилдиамин	"	600	905	700	1 059
30903	Антифризы	"	3 500	473	12 640	1 583
30978	Стабилизаторы	"	265	483	13	29
31107	Растворители	тыс. т	10,1	1 444	1,1	198
348	Препараты для борьбы с вредителями в сельском хозяйстве	т	6 580	5 884	1 680	1 942
50502—50504	Целлюлоза	тыс. т	72,6	13 320	42,9	7 724
51302	Штапельное волокно синтетическое	т	2 592	2 225	2 034	1 456
5140104	Пряжа искусственного шелка	"	4 508	5 040	6 591	6 449
5205001	Овчины меховые	тыс. шт.	1 183	2 757	—	—
53001	Сырье кожевенное крупное	"	1 965	13 718	911	10 687
59102	Кишки искусственные	млн. м	130,6	1 557	200,8	1 983
6090102	Норки	шт.	1 200	60	1 100	26
83502	Миндаль	т	1 009	1 417	603	887
8510302	Сигареты	млн. шт.	196	1 015	130	641
960—962	Медикаменты	—	—	355	—	544
97401—97404	Произведения печати	—	—	730	—	700
97405	Филателия	—	—	164	—	220
97801	Кинофильмы	—	—	965	—	813

It is my impression that whether the U.S.–U.S.S.R. issue up for consideration and settlement is a grain deal, an energy deal, or any great issue, Uncle Sam is played for a sucker. Why not change our strategy? Instead of leaving it to Export-Import Bank of the United States to scrutinize and approve without conditions a $49.5 million loan application for Siberian energy exploration, why not attach as a reasonable precondition Soviet approval of the reestablishment of the American Consulate of World War I and II days in Vladivostok, not far from the energy exploration sites and in the vicinity of the pipeline terminus from those sites to the Pacific Ocean. If, as reported February 12, 1974, from San Diego, California, there are U.S. State Department officials engaged in drawing the Soviets into a reciprocity deal whereby access to the port of Vladivostok is gained in a swap for access to San Diego, thereby raising to 41 the list of 40 Soviet and United States ports open to calls upon notice pursuant to the U.S.–U.S.S.R. Maritime Matters Agreement signed at Washington, D.C. October 14, 1972, I would tell them to get wise and forget it. Why? Because for the past two years a Soviet hockey team has, in the course of its nationwide ice hockey competition with both professional and amateur teams based in the United States over the Christmas/New Year holiday season, managed to schedule and play the San Diego Gulls. That would not be bad at all per se, but for the fact that San Diego is considered to constitute the most sensitive West Coast United States naval installation and the additional fact that, despite the routine Soviet visa requests for these Select U.S.S.R. squads of 1972-1973 and 1973-1974 claiming the majority to be "students," anybody who follows Soviet hockey developments in *Krasnaya Zvezda* (Red Star), central organ of the Ministry of Defense of the U.S.S.R., can tell you the military rank of each member of the first line of Mikhailov-Petrov-Kharlamova and the military background at the Central Sport Club of the Army of the fast improving line of Lebedev-Bodunov-Anisin, to mention just a few.

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